NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS

Congressional Information Service, Inc
Washington, D.C.

S. Hrg. 101-672, Pt. 6

INVESTIGATION OF SENATOR DAVID F. DURENBERGER

EXHIBITS

BEFORE THE

SELECT COMMITTEE ON ETHICS
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

SPECIAL COUNSEL HEARING EXHIBITS

PART 6 OF 7

JUNE 12-13, 1990

U.S. GOVERNMENT PRINTING OFFICE
31-406 WASHINGTON : 1990

S351-6

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

SELECT COMMITTEE ON ETHICS

HOWELL HEFLIN, Alabama, *Chairman*
WARREN B. RUDMAN, New Hampshire, *Vice Chairman*

DAVID PRYOR, Arkansas	JESSE HELMS, North Carolina
TERRY SANFORD, North Carolina	TRENT LOTT, Mississippi

WILSON R. ABNEY, *Staff Director and Chief Counsel*
VICTOR MCEVER BAIRD, *Staff Counsel*

ROBERT S. BENNETT, *Special Counsel*
FRANCES L. WETZEL
ABIGAIL J. RAPHAEL

ETHICS COMMITTEE STAFF

DAVID J. APOL, *Counsel*
SHEILA D. LANGENHENNIG, *Counsel*
HOUSTON R. FULLER, *Investigator*
MARIE E. MULLIS, *Professional Staff Member*
ANNETTE M. GILLIS, *Chief Clerk*
JENNIFER L. JONES, *System Administrator*
TRACY L. HANBURY, *Staff Assistant*
KAREN A. VERMAIRE, *Staff Assistant*
M. SHANNON FALLS, *Staff Assistant*
SHARON L. NIXON, *Staff Assistant*

CONTENTS

Page

448. *Neither Madmen Nor Messiahs* 3
449. *Prescription for Change* 295
450. Affidavit of William B. Canfield, III, former staff member, Senate Select Committee on Ethics 522
451. Affidavit of Wilson R. Abney, Staff Director and Chief Counsel, Senate Select Committee on Ethics 524
452. Deposition of Michael C. Mahoney (April 17, 1990) p. 158, line 4–p. 159, line 2 526

PART 6

EXHIBITS 448–452

Neither MADMEN Nor MESSIAHS

A Policy of National Security for America

SPECIAL
COUNSEL
HEARING
EX. 448

by Senator David Durenberger
Senate Select Committee on Intelligence

"Responsibility for government is vested in our elected leaders, for administration in our bureaucratic elites, for information in our media elites, and for production in our business and trade union leaders; but responsibility for our survival in freedom and peace belongs to all of us, who by chance or by choice find ourselves in positions of influence in this republic."

AMBASSADOR JEANE J. KIRKPATRICK
The Representative of the United States of America
to the United Nations

Neither MADMEN Nor MESSIAHS

A Policy of National Security for America

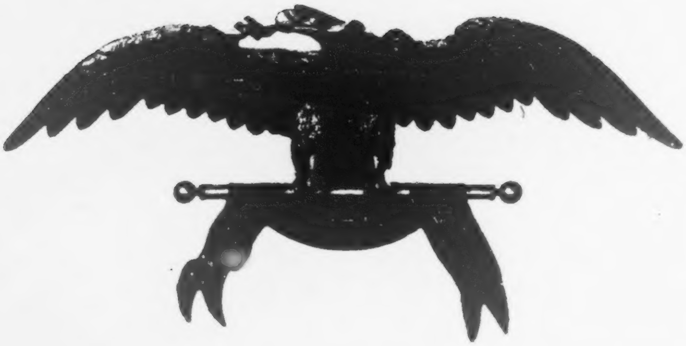
by David Durenberger
United States Senate, Member Select Committee
on Intelligence

with a foreword by former
Secretary of Defense
James R. Schlesinger

PIRANHA PRESS
4504 EXCELSIOR BLVD. - MINNEAPOLIS, MINN. 55416

Published by Piranha Press, 4504 Excelsior Blvd.
Minneapolis, Minnesota 55416 • Rick Nolan Diamond, Editor
Printed by Colwell/North Central Inc.

Copyright @ 1984 by Piranha Press



COVER: The gilded American Eagle, pictured on the cover, perches on the wall of the Old Senate Chamber of the Capitol building. After the Senate moved into its present wing in 1859, the room housed the Supreme Court for 75 years.

Dedication

This book is dedicated to Stephen E. Ockenden who has served as a member of my U.S. Senate staff since my first year in office and without whose assistance and invaluable guidance this book would not be possible . . .

. . . and to Helen Ockenden who, despite the many long hours Steve devoted to enlightening this Senator, has been supportive of this project since its inception.

About the Author

Dave Durenberger was born in the rural Minnesota town of St. Cloud in 1934 and was raised there, on the campus of St. John's College where his father was Athletic Director. He later graduated from St. John's and went on to receive a law degree from the University of Minnesota.

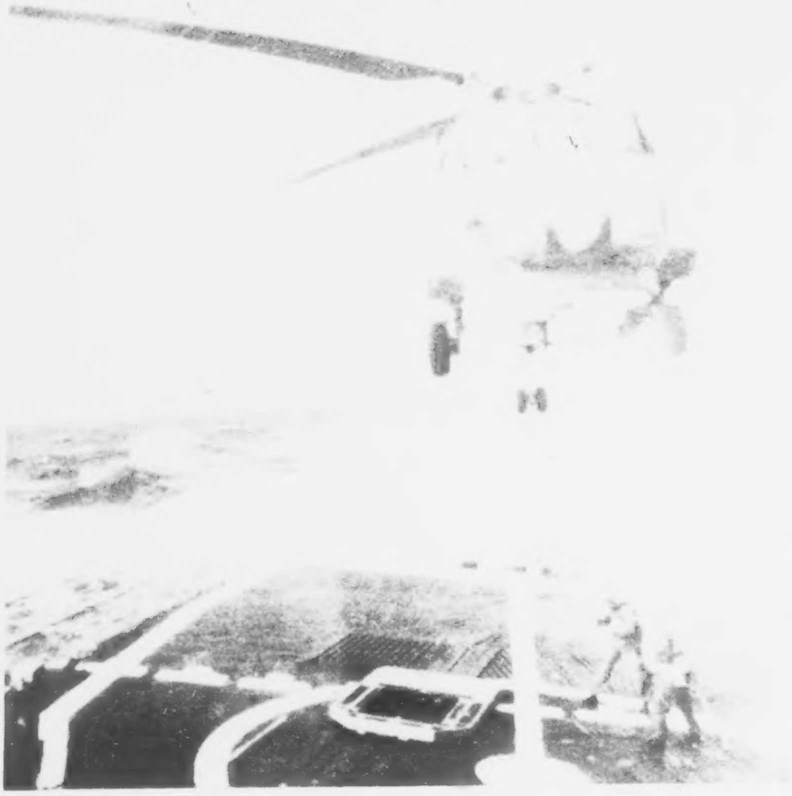
He served as an officer in Army Intelligence after graduating from law school. On completion of his military service he served as chief aide to Minnesota Governor Harold LeVander, was in private law practice, and was counsel to the H. B. Fuller Company in St. Paul. He was elected to the United States Senate in 1978 and re-elected in 1982.

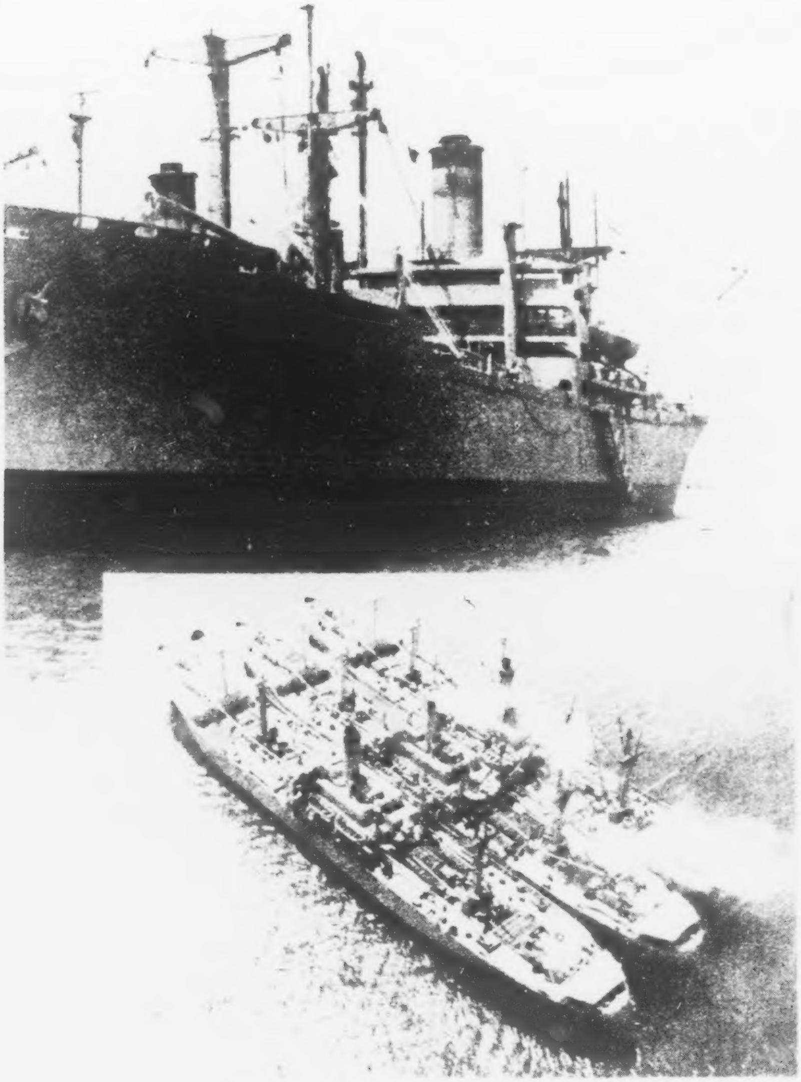
His standing among his colleagues in the Senate is perhaps best reflected by noting that he was selected by the Republican Majority and the Democratic Minority Leaders of the Senate to serve on the highly important, and secret, Senate Select Committee on Intelligence.

He and his wife, Penny, have four sons: Charles, David, Michael and Daniel.

Secretary of Defense Caspar W. Weinberger

Ronald Wilson Reagan, 40th President of the United States

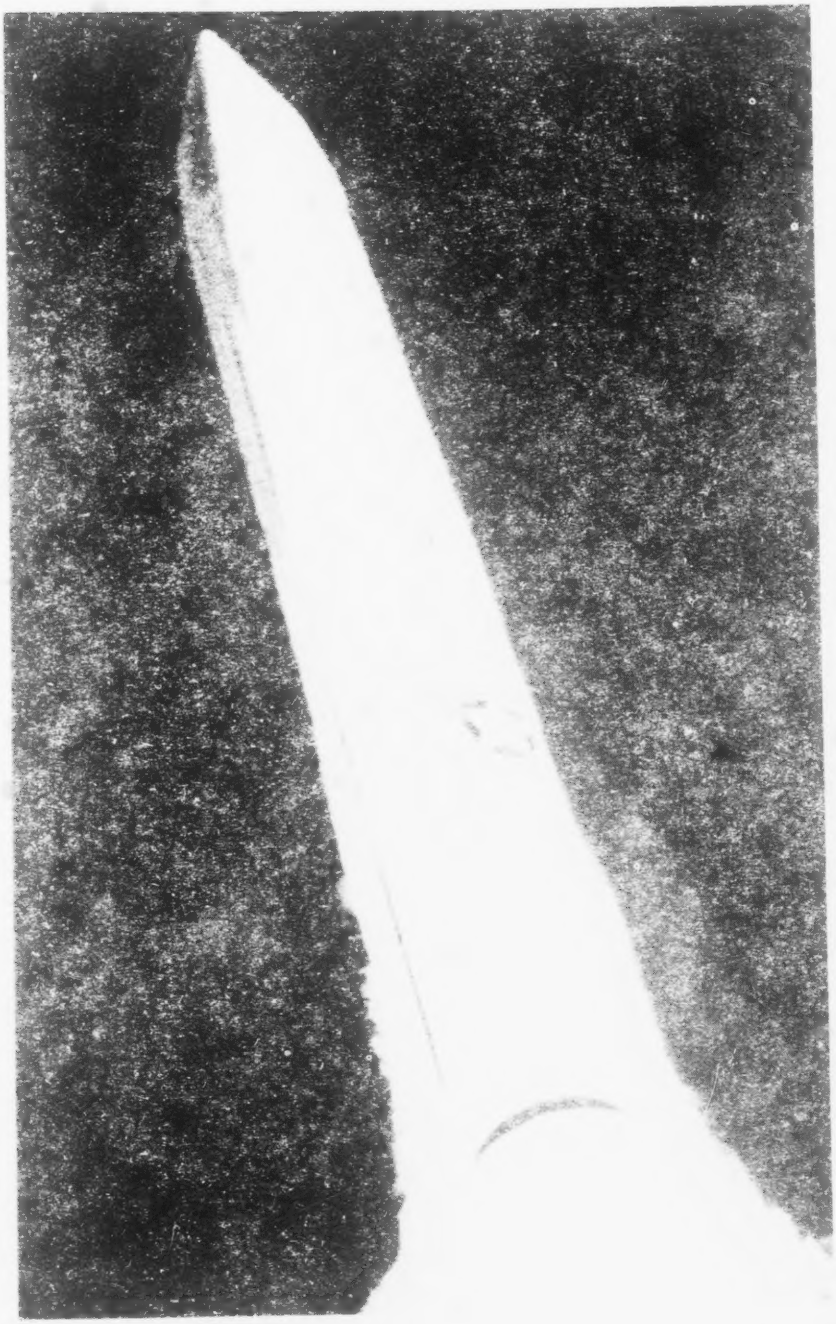




[illegible] floating depot, FFD, is composed of [illegible] the USNS [illegible] and Phoenix; these ships are of the Victory [illegible] The FFD's primary mission is to transport [illegible] [illegible] transport [illegible]

[illegible] SL-7/SOB Sealand [illegible] USNS [illegible] [illegible] Multi-Purpose System MS-III LAMPS-III [illegible] ship are equipped with LAMPS III [illegible]

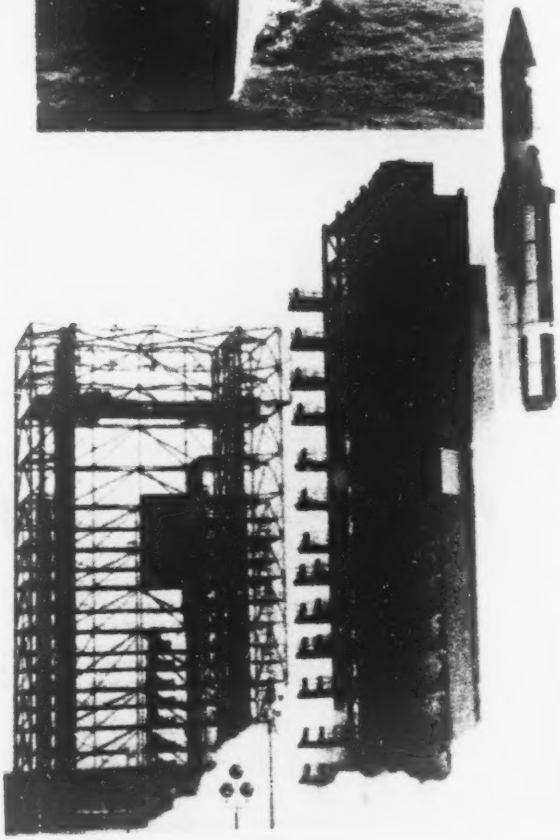
[illegible] the nuclear powered submarine USS Richard B. Russell (SSN 687) [illegible] Above: Senator Dave Durenberger speaks at the commissioning ceremonies for the Russell's [illegible] Mrs. [illegible] Al Durenberger (left) [illegible] Minnesota [illegible] Staff General John Vessey.



Left: Bow view of the guided missile cruiser USS California (CGN 36) with the carrier USS Nimitz (CVN 68) in the background.

U.S. NAVY PHOTO

Below: Launch of a Titan IIIC at Cape Canaveral, Florida.



Senator Dave Durenberger in the Control Room of the Nuclear Submarine U.S.S. Minneapolis-St. Paul

Contents

Introduction: James R. Schlesinger, former Secretary of Defense XI

Author's Foreword XVII

Prologue XXI

1 U.S. Foreign and Security Policy: Realities, Interests, Issues 1

2 The Making of U.S. Defense Policy 41

3 Strategic Nuclear Weapons 83

4 Theater Nuclear Weapons and NATO 117

5 Arms Control and American Security Policy 133

6 The Army: Reform and Renovation 159

7 The Naval Forces: Control of the Seas 175

8 The Marine Corps: Defining Missions for the Future 197

9 The Tactical Air Forces 213

10 Airlift and Sealift: Deploying, Supplying and Sustaining our Forces 227

11 The Reserves and National Guard: A Defense Bargain 237

Index 243

Illustrations follow pages viii and 198

Introduction by James R. Schlesinger

Former Secretary of Defense of the United States of America

Since his arrival in Washington late in 1978 to complete the unexpired term of the late Hubert Humphrey, Senator David Durenberger has rightfully enjoyed a reputation for responsibility and thoughtfulness. The reflections which are incorporated in this volume deserve the reader's careful attention. They deal with the most fundamental of our nation's problems, and they both are guided by and reveal David Durenberger's deep sense of responsibility. The foreign policy and defense issues that engage the Senator fall outside of his normal committee responsibilities, yet they are of ultimate importance to every citizen. That the Senator has taken on the heavy burden of exploring these issues and formulating his thoughts *as a kind of extracurricular activity* adds to the significance of his work.

For in little more than a decade, the way that the U.S. government and the Congress carry out their assigned functions have undergone rather dramatic changes. For a quarter century after World War II, it was accepted that the Executive Branch would lead in foreign policy and that the Congress would defer to the President. The Congress itself was carefully structured, and tended to follow the recommendations of its leaders and its appointed committees. For better or worse, all this has now changed. Congress has reasserted the power in matters of foreign policy that is inherent in the Constitution. It no longer automatically defers to the President — or even to Congressional leaders and Congressional committees. Power has become widely diffused. Each member of Congress is forced, indeed is expected, to think out his position on these all-important issues, without undue deference to the recommendations of the committees of jurisdiction.

That imposes heavy new responsibilities on individual Senators and Congressmen. No longer can they pass on the heavy burden of decision to duly-constituted committees. Now each member of Congress has the moral obligation to think out these issues for himself. Senator Durenberger has admirably faced up to these new conditions. In private study, and in the preparation of his own white papers that are incorporated into this volume, he has demonstrated a remarkable capacity to examine these vital, yet venerable issues for himself.

It may also be observed that a new responsibility has been imposed upon the Executive Branch. No longer can it count on obtaining Congressional support and approval for its recommendations based simply upon the authority of the President, or the Department of Defense or the Joint Chiefs of Staff. Instead of gaining support out of respect for authority, an Administration must now be persuasive and put forth credible proposals. For many in the Executive Branch this has turned out to be a new and not entirely comfortable world. Some have been slow to understand that the revolution in Congressional behavior and attitudes is not likely to be reversed. Too frequently members of the Executive Branch put forward positions that are not persuasive, and demand that members of Congress accept those positions based upon the Executive's presumed authority. They are angry and disappointed when the Congress does not respond as they wish. But they are foredoomed to such disappointment — given the profound changes in the nature of government.

Against the background of these more general changes in government, one must come to grips with the Senator's specific analyses and recommendations. These reflect that most fundamental issue in formulating government policy: how does one get that mix of defense capabilities that satisfies the nation's security requirements within available budget resources. Given the strict limitations on America's capacity to tax herself — and prudent limits on our willingness to indulge in deficit spending — the traditional belief that "we will spend whatever is necessary for defense" cannot be sustained. We are forced to make choices — sometimes quite painful choices.

Defense, after all, now represents approximately eighty percent of the controllable expenditures of the U.S. government. If Congress wishes to make major changes in the budget, it is inevitable that defense will be affected. My old colleagues in the Pentagon may not welcome this reality, but they cannot evade it. Moreover, as Durenberger makes clear, the budget deficit since the quixotic tax cuts of 1981 has become intolerably large — if we wish to avoid inflation or a burdensome increase in steadily growing interest payments on the federal debt.

It is the responsibility of Congress to reduce that deficit. Not only can defense not be exempt from such a process, it has not been. In recent years the Congress has allowed real growth for the defense establishment of only about three percent. Indeed, if one looks at fiscal year 1985, appropriations for defense will run some 15 percent below the level the Administration had projected just two years ago. Such developments underscore the necessity of choice. We trust that they will be wise choices.

It is not my purpose to anticipate the richness of the discussion in the book itself. Senator Durenberger has correctly delineated the relationship between defense capabilities and foreign policy objectives. That relationship is fundamental. Too many Americans imagine the purpose in creating forces is simply for America to be strong — rather than to serve our broader foreign policy objectives. And Durenberger has highlighted the principal foreign policy objectives, perhaps most pertinent amongst them the security of our sister democracies in Western Europe.

Many are the recommendations for improvements in procedure and process. Some of the suggested reforms have been bruited about for a number of years. The ultimate question is whether or not we as a nation are prepared to embark on such reforms. If so, much of the initiative will have to come from the Congress itself. Major reforms are indeed available that can significantly increase the security of the United States and the effectiveness with which we employ our defense dollars. In the past the Congress has been a principal barrier to such reforms. Can it now transform itself into an effective promoter of such reforms? That will depend on men like David Durenberger.

On such ultimate political questions rests the efficacy of our defense capabilities. For if we are to continue to match the Soviet Union in such a way as to continue to deter, we shall be obliged to use our defense dollars more effectively. That implies a substantial alteration of the procurement procedures of the Department of Defense — and such reforms are recommended in this volume. The ultimate question is whether or not we as a nation are prepared to undertake such substantial reform. Specialists in defense have known about the deficiencies in the procurement process for many years. Will the authorities take heed?

Similarly, almost all recommendations since World War II have suggested substantial changes in the structure of the military chain of command and the role of the Chairman of the Joint Chiefs of Staff. We need to get the benefits of the unification of our military forces, in such a way that they are not blocked by excessive sensitivity over the prerogatives of the individual Military Services — the Army, the Navy, the Air Force, and the Marines. If we can restructure the system of military advice and the chain of command, we can have far greater military effectiveness from the existing forces than at the present time. In the past America's gross advantages over the Soviet Union were such that we did not have to concern ourselves about such matters that appeared to be marginal. Today we no longer enjoy such gross advantages — and we must move towards obtaining greater effectiveness from existing forces. Once again Congress must show the way.

Many are the suggestions that the Senator has included in this volume. All reflect his careful and private investigations of these matters. But the reader must be assured that no individual will agree with all the recommendations. I, for example, having worked with the Scowcroft Commission and having (while in office) laid down the original specifications for the MX Missile, scarcely can embrace wholeheartedly the Senator's treatment of this particular issue.

Yet, whether or not one agrees with the Senator on individual issues, one must agree with him on the larger questions involved. We must be prudent in the use of our defense resources. To achieve such prudence, we will have to seek major reform in military structure and in the process of making procurement decisions. And each member of Congress — indeed, each American citizen — in this new world of diffused political power, has acquired the responsibility to think deeply, as has David Durenberger, about all these weighty matters.

Author's Foreword

Few topics are as certain to spark a political debate these days as is our national defense policy. Are we spending too much or too little? Is the MX a necessary deterrent or a dangerous threat to world peace? Can the Pentagon wisely manage its budget or are our tax dollars being wasted on $100 nuts and bolts and $400 hammers?

This concern — and controversey — over our national defense is nothing new. It is not an attitude that took hold of the American public on Nov. 4, 1980, with the election of Ronald Reagan. Democrats as well as Republicans have campaigned on defense issues. John Kennedy talked about a "missile gap" in 1960; the perception he created of U.S. vulnerability helped to propel him to the White House. Jimmy Carter's 1976 campaign platform included a pledge for a stronger defense.

In fact, as is so often the case, the American public was leading its leaders on defense policy. Reagan's 1980 campaign promises to increase defense spending and eliminate waste in government were a reflection of public opinion polls that showed overwhelming support for a stronger and better national defense.

In the last few years, though, the fresh memory of a painful recession, the on-going controversy over reduced growth in social spending and the plague of budget deficits has intensified the focus of our national security debate on defense dollars rather than defense policy. Political leaders continue to measure defense strength in terms of what we can afford, not what we need.

This book details a policy of national security. Its purpose is not to argue dollars and cents. I believe that if the strategies in this book were followed national defense spending would be significantly lower over the next five years, but more importantly, our national security would be better assured and world peace would be at less risk.

This book is being published at a time when the political theme of "new ideas" has propelled a Democratic candidate for the presidential nomination of his party to national attention. Gary Hart has popularized the theme of "new ideas" but no single person can take all the credit. Rather than one politician's attribute, new ideas are more the American public's thirsting for a new role for their government.

The publication of this book is a reflection of that thirst. The idea for publishing this book is not mine. It belongs to the publisher who is a citizen of Minnesota, a taxpayer and a small businessman. In all these capacities, the publisher, Gary Diamond, was struck by the fact that one of his Senators would take the time to educate his constituents in critical areas of U.S. policy — national defense and arms control. The idea for publishing this book is his alone.

This book is an updated version of "white papers" I produced in 1982, the last year of a term to which I was elected to complete the last four years of the term to which one of Minnesota's most famous Senators, Hubert H. Humphrey, was elected in 1976. The first paper, entitled, "America's Defense in the 1980s," was produced in February 1982 immediately after President Reagan visited Minnesota on behalf of my reelection campaign.

The second paper, entitled, "Defense, Disarmament and Diplomacy: A Rational Policy for Reducing and Controlling Nuclear Arms," was produced in August 1982 in the midst of the original congressional debate over the Nuclear Freeze Resolution and the Jackson-Warner alternative which was endorsed by the Reagan Administration.

Nothing in this book is a "new idea." This book was prompted by the belief that the future of both defense spending and arms negotiations does not depend on incremental budget increases or decreases. Instead, the future is based on two other elements and it is those elements by which the public should measure those members of government who would lead us through the crisis of East/West confrontation and of paralyzing budget deficits to a new role for the United States government and national security policy.

The first is a break from the past in which congressional debate on arms control and defense spending was based on monetary additions or subtractions from a previous record rather than on the principles of sound policy. That is, instead of debating what our national security policy should be, Congress has debated how much should be spent.

The second element is that good national security policy — both defense and arms control — must be built on public consensus. Elected officeholders must be educators and persuaders as well as deciders. Public policy must be built on public understanding and public consensus.

When I came to Washington in 1978 I decided that my contribution would be to break the mold which most politicians found successful. I concluded that I could neither be all things to a few people, nor could I be a few things to all people. In other words, I could not concentrate my efforts only on my favorite policy area, health policy, and be the "health Senator" to the exclusion of all the interrelated policy demands. Nor could I try to do a little bit in every area and thus provide thoughtful leadership in none at a time when new directions were being demanded in all areas.

So the thoughts contained in this book are not those of a Senator who sought membership on any of the Senate committees or subcommittees with direct jurisdiction over defense spending or arms control policy. They are the thoughts, though, of a Senator who like all Senators is called upon for advice, information and decisions on these issues each day of my life. While the purpose of this book is not to give advice to my colleagues, I do suggest that each of us who has the opportunity to serve in Congress must devote the time and resources necessary to understand the critical issues. They cannot be left solely to those members who serve on a handful of committees.

Of course, many members of Congress from both sides of the aisle have become experts in this area. Many of their ideas are included without reference in this book. Some of my colleagues (I think especially of people like Maine Senator Bill Cohen) could have written this same book and probably have done a much better job.

For me, this book is one more step in my on-going education. I have grappled with the issues as a member of the Senate and as a member of the Select Committee on Intelligence. I have met with the top brass at the Pentagon and the soldiers on the front lines. I have debated the issues with Cabinet members of this administration and their predecessors. I have talked with my colleagues in Congress; "think tank" experts and defense contractors. Perhaps the most useful education was found in the common sense ideas gleaned from the thousands of hours I've spent with constituents in Minnesota and elsewhere.

President Reagan and his advisers, members of Congress and those who serve at the Department of Defense are not "messiahs." No one has all the right answers. Neither are they "madmen," bent on confrontation. World peace is a universal goal. Our government is made up of men and women who are, like you and I, *Neither Madmen nor Messiahs*.

DAVE DURENBERGER
Washington, D.C.
May, 1984

Prologue

On September 24, 1981, President Ronald Reagan faced a dilemma. After a red-hot July of historic spending cuts and tax adjustments, August brought absolutely *no* response from the financial markets. It was increasingly clear that the budget deficits which were sapping our economic recovery would not be reduced as quickly as he had anticipated. He therefore proposed that we seek additional reductions of twelve percent — across the board — in "discretionary" social spending programs, such as aid to education or allotments for child nutrition. At the same time, he asked that we leave the commitment to rapidly increased defense spending untouched.

I had come to the Senate in 1978 convinced that above all else we must change the role which government plays in people's lives. Over the years, we had seen government taking on more and more functions, using the conjunction of our federal government's general welfare claims and taxing authority. The costs were soaring — and they were not financial alone; the growing "cost" was reduced taxpayer support for programs whose value received declined as a percentage of revenue consumed. To improve the role of government would require substantial changes in the structure of government, in the overall policies which government pursues, and in the nature and quality of public service delivery at all levels.

It was clear to me that we would never solve the real problems which have so sadly eroded confidence in government if we took a simplistic approach based on reducing (or increasing) budgets for the sake of simply making numbers come out to some preferred alternative. Equally, a simplistic commitment to increasing or reducing the number of government agencies would not do the trick either. Instead, it was clear that if we are to affect the role which government plays in our lives, we must make the commitment to examine policy in its broadest sense.

The ongoing debate about the size of the federal budget is really a debate about policies — the way they are made; the way they are implemented. It is remarkable and welcome that over the past few years most people have come to realize that huge federal budget deficits are deeply harmful to our national security. Deficits mortgage the future in order to help politicians keep their promises today. The result is long-term economic weakness and a growing crisis of confidence in the political system. So I am delighted that most people believe we must reduce the federal budget deficit if we are to begin to move this country in the right direction.

But a debate about deficits must go beyond a simple game of arithmetic. It must get into priorities and policies. To pretend otherwise is simply to continue the folly of the past. That's why we had the "dog days" of August, 1981. The country knows now you can't balance the budget by moving spending numbers down in only a small portion of overall government programs, or by moving taxes up.

At the start of 1981, only 15 percent of the federal budget went to discretionary spending — that which can be altered each year by Congress. Much more of the budget goes to so-called "entitlements" programs — those which are drafted into law in order to automatically fund a pool of "entitled" people. Such programs are beyond the annual control of Congress in its budget review. They can only be changed by legislative change in authorizations. Entitlements programs are nothing more than money machines. Ironically, one of the biggest entitlements programs — in fact, if not in intent — is found in the Department of Defense. A blind commitment to more defense spending works just like an entitlements program. A series of long-term credit arrangements designed to build new weapons in the future does the same thing as Medicare or an indexed Social Security system.

Defense — our national security — is an urgent priority, one which must always be assured. It is a cliche that the absolute minimum responsibility of every national government must be to preserve the national security. This is an inescapable duty, and one in which the Senate is inextricably involved because of the structure of our constitution. Every Senator, whether or not a member of the Armed Services Committee, must vote on the overall federal budget and on numerous amendments to the military authorizations and appropriations bills. Likewise, the advice and consent duties of the Senate involve every Senator in the ratification of treaties and other international undertakings. Finally, of course, the War Powers provisions of the constitution directly involve the Senate in decisions concerning the use of force.

Thus, although I am not a member of the Armed Services Committee, I am like every other member of the Senate — of necessity heavily involved in our nation's defense policy. Moreover, I have served on the Senate Select Commitiee on Intelligence since 1979, and am involved in much of the work which results in estimates of the threats, both near-term and long-term, to our national security. Finally, of course, I came to the Senate feeling strongly, as did most other Americans in the late 1970s, that our nation was weaker than it should be.

But I also came to the Senate with an awareness that it is a primary responsibility of legislators to help translate general goals into real policies by providing resources. If we are to do that, we must be aware of competing needs. Just as important, we cannot lose sight of the fact that the appropriation of money doesn't always equate to sound policy. Money in the Defense Department can be wasted just as much as it can be anywhere else, and for the same reasons: unrealistic goals, investment in programs with little real worth, unnecessary duplication of effort, and narrow bureaucratic self-interest. If this sounds harsh, it is nonetheless true, just as it is true for any other government agency. Anyone who has served in the military, as I did, will remember times when one was compelled to wonder just how this country had ever won a war. For the military, like any other huge organization, is beset with problems.

It should be the duty of legislators to identify those problems, steer resources toward their correction, and refrain from spending money on programs that only feed failure. If we fail in this job, we weaken our security as surely as if we were not to fund defense at all. Even more important, the long-term security of any democracy must ultimately depend on both a sound economy and on public support for defense spending. If the public feels that money is being wasted, it will soon lose its tolerance for higher defense budgets, leaving us perhaps even worse off than we were in the mid-1970s.

Thus, it was increasingly clear to me in 1981 that I would need to take a comprehensive overview of our defense policy in order to determine just what was needed, and what was not needed, to improve our security at a price which Americans would tolerate and which would not undermine our security by harming our economy. I therefore spent several months examining our defense policy closely, and published a "White Paper" on the subject in February, 1982. This was followed in August of 1982 by a second White Paper on the subject of nuclear arms and arms control policy.

Both these White Papers received considerable attention around the nation. I was gratified to see that the defense White Paper received coverage in several major papers, and that soon other people were authoring similar works. Within a year, for instance, *Newsweek* magazine had devoted an entire issue to the question of reforms in our military programs and reductions in our spending. Coincidentally, the editors of *Newsweek* arrived at the same budget figures I had sketched in my White Paper, although some of their particular suggestions were different.

With widespread attention came widespread comment and criticism, the great bulk of it very helpful. I had stressed in my original White Paper that I was attempting to set policy priorities rather than to develop a "hit list" of particular weapons. Nonetheless, it is difficult to do the first without getting into the second. Therefore, I received considerable advice from many people who wrote to comment on some of the particular weapons programs I had mentioned. (One letter I remember well was a candid set of thoughts from Jack Vessey, a Minnesotan who was then serving as Vice Chief of Staff of the Army, and who now serves as Chairman of the Joint Chiefs of Staff, our highest military position.) Other comments suggested that the White Paper did not sufficiently explore such questions as our overall foreign and security policies. This kind of analysis was extremely helpful.

1982 was also an election year, a critical one for the country and for this new administration and its boldness in economic and defense policy. It was also my first reelection campaign after serving the final four years of Hubert Humphrey's last term, to which I had been elected. In a state in which two-thirds of the voters polled throughout '82 opined that "Minnesota should elect a new Senator to send a signal to Ronald Reagan," you'd better believe that defense policy, defense spending, and arms control were major issues.

But the issue was not commitment — or lack thereof. The issue was simply "fairness." If deficit spending or fraud, waste, and abuse are problems in domestic spending programs, then why not in defense? If budget cuts force fiscal responsibility in social spending, then doesn't a 35 percent increase totally discourage reform in defense spending?

That's one of the major reasons why Republican Senators were in trouble in 1982, and why scores of Republican Congressmen lost.

The book which follows is a substantial updating and revision of the two White Papers which I released in 1982. It benefits from the help of those many people who took the time to comment on my first attempts in this area. Nonetheless, it remains fundamentally what I intended with my White Papers — an exploration of policy, not programs. It is designed to suggest priorities and emphases which require attention if we are to restore our military posture while gaining control of our economy.

It is *not* a comprehensive overview of technology or tactics, since I am neither an engineer nor a professional soldier. While I have identified a number of programs which I feel merit reorientation or cancellation, these are illustrative more than definitive, and I hope that they will be accepted as such. My chief concern lies in making sure that we devote our attention to the kinds of fundamentals which Congress can and should properly address: national policy commitments, priorities within those commitments, and the means to carry them out effectively at the least possible expense. In some cases, this may actually mean an increase rather than a decrease in spending. I am not interested in reducing the defense budget for the sake of reductions. I am interested in ensuring that we spend our defense dollars wisely.

There are no easy answers to the complex and frightening questions we face in the area of national security. And it must be made clear that we should not look in the future, as we have too often in the past, to the defense budget as the only vehicle with which to balance the federal budget. Even if this were possible, and it is not, it is not desirable. Our national security concerns are large and they are real, and no amount of wishful thinking will undo this fact.

But the American people must be confident that they are directly involved in the making of national security policy, because they are surely involved in its effects. There are no hiding places in the nuclear age, and any divisions among Republicans, Democrats, southerners, northerners, men, women, wealthy and poor will quickly disappear if we fail to preserve our security. At a time when people increasingly feel alienated from their government — when they feel that it is "the" government, an alien body which can harm them, rather than "their" government which they control — it is vital that a sense of common purpose be restored. As the Founding Fathers noted two centuries ago when confronted with a hostile world, "if we do not hang together, then we will surely hang separately."

That's why I hope that more and more people will devote serious thought to the pressing questions of national security policy. We are in this together, and the Defense Department can ultimately serve as only one source of opinion about what we need to do and what we do not need to do. None of us can be assured of being absolutely and totally correct. But collectively, we can begin to arrive at some common sense of purpose. The nation — and the Defense Department — will be stronger for it.

1 U. S. Foreign and Security Policy: Realities, Interests, Issues

"Military force is most useful precisely when it does not have to be used. It backs up diplomacy by making intentions clear, by setting conspicuous limits, and by influencing behavior."

Defense policy is not "policy" unless it serves some larger purpose relating to international politics. Military force is not an end in its own right. It is a means to accomplish policy, and it must be subordinated at all times to a clear recognition of that policy.

This insight was cogently presented nearly two centuries ago by Karl Maria von Clausewitz, one of the most widely quoted and least read theoreticians in history. Perhaps his most famous aphorism is that "warfare is only the continuation of politics by other means." To some people, this appeared to suggest that the military should define policy; that once conflict had broken out, political authority should be subordinate to military "experts." Clausewitz meant exactly the opposite — that once we lose sight of the political goals which motivate us to build or to use force, we lose the rational purpose behind that force and those goals. The military must always be subordinated to the goals and the limits set by political authority. Those goals, in turn, must take into account international realities. People who lack an understanding of the world in which we live should not be trusted to spend money on the military.

2 *Neither Madmen Nor Messiahs*

A. *Trends in World Politics*

The United States is thoroughly involved in world politics. Isolation from the rest of the world is simply not possible. We depend on other nations. We are affected by them just as we affect them in turn. Distances among nations shrink every day. International travel is commonplace, and satellite communications are an instant reality. Events which occur in formerly "isolated" areas of the world affect our lives with immediacy. Consequently, we are of necessity involved and interested in the course of world affairs. This involvement, and the involvement of other nations, is the essence of international politics.

The Structure of World Politics: Bi-polarity

At some level of abstraction, it is possible to envision the international political system as a collection of states, some large and many small, which represent a "structure", just as our own country is a structure of many governments. If we can look at world politics in this abstract way, rather than with specific attention to Russia or France or Japan, we can be given some hints about how things are likely to develop in the future, just as we can look at other parliamentary systems to try to determine how our own political system is likely to thrive. In other words, let's turn our attention away for the moment from what a particular President said yesterday or how many airplanes the Chinese government owns today. Let's look instead at the structure of the world political system as it has existed for some time.

The first thing we notice is that there are two very large military powers — the Soviet Union and the United States — which each have the potential to do appalling damage to the other, and to the rest of the world as well. In the military dimension, in other words, there are only two world-class powers. Other nations, although well armed, simply can't match that kind of military strength. In formal terms, therefore, we can see that the world is "bipolar" — it has only two major concentrations of military power.

This is a very unusual situation in terms of past history. For most of history, the international political system has been defined by four, five, or six major military powers, each roughly equal to the other in overall strength. For instance, in the 19th Century, the international political system was defined by France, Great Britain, Germany, the Austro-Hungarian Empire, and Russia. Italy was only beginning the long process of unifying. Spain had lost much of its strength. The United States was more involved in its westward expansion than in events beyond its own borders. So a few European countries vied for influence. Each was about the same size as the others, and each had weaknesses as well as strengths.

In this kind of system — a "multi-polar" arrangement of power among several nations — there was a considerable degree of turbulence in world politics. Since no nation was capable of clearly being the strongest power, each sought alliances with other nations in order to gain strength. But since issues changed from day to day, so did the alliances. For instance the early 19th Century saw Britain and Prussia allied against Napoleon's France. The later 19th Century saw Britain and France allied against Bismarck's Germany. With each shift of alliances, conflict often broke out. Although there was always a rough balance of power among the major nations, there was considerable turbulence, particularly as the Europeans began to vie with each other for colonies in Africa and Asia.

The multi-polar system barely survived the horrible slaughter of World War I, which wreaked havoc on the European nations. It collapsed entirely with World War II. The colonies which had provided strength and resources to Britain and France were given independence — often after bloody wars. The United States was the dominant nation in all measures of power — military, economic, political. Europe was exhausted and broke. Only the Soviet Union had the combination of size, natural resources, and determination to become a major power. Over time, it did just that. The result was the emergence of a "bipolar" system to replace the "multipolar" system which had existed for centuries. In terms of military power, it shows no signs of changing: The Soviet Union and the United States are likely to be the only major military powers in the world for many years to come.

Interestingly, the result has probably been to provide more stability and predictability in world politics than was the case before. Since there are only two major military powers — each with allies — the issues which separate them tend to remain relatively constant and relatively clear. In contrast to the constant shifts of alignment which occurred — often at the cost of a war — in the 19th Century, the bipolar system is generally stable. Neither power can find sufficient allies to eliminate the threat from the other, and both have learned to live with this fact. Thus, although the years since 1945 have seen massive conflict — much of it involving the United States (in Korea and Vietnam) or the Soviet Union (in Eastern Europe, the Middle East, and Afghanistan) — there has not been a direct military encounter between the two superpowers. Each knows that this would be suicidal. Moreover, each knows that the other will fight where clearly defined and widely-recognized national interests are at stake. In the 19th Century, interests shifted nearly daily, as each nation jockeyed for influence against the other. Today, interests don't shift as rapidly, and each superpower has tended to give the other a wide berth where stakes are clear.

Economic Trends

But if the world can be called bipolar in terms of military ower, it is clearly multi-polar when it comes to other mea- ures of international power. This is most true with respect economics.

Today, there are many competing centers of international conomic power: the United States, Japan, the European ommon Market, the Soviet Union, the oil-producing na- ons, and so on. Activities in any one of these economic nters directly affect the other centers. For instance, as nks pay higher interest rates in this country to offset the ects of inflation, investors in Europe tend to put their ney into the American banking system rather than their n. As Germany undergoes unaccustomed inflation and employment, consumers in this country who drive Ger- n cars or drink German wines or use German steel are antaged.

Some of these shifts are deliberate. The massive price increases in oil which followed the 1973 Middle East war are a good example. Others are not deliberate. The effects of our own inflation rates on foreign investors are not deliberately plotted.

What this means, of course, is that while there is considerable stability in certain areas of world politics — most notably, the superpower military confrontation — there is considerable change in other areas. The world is a dynamic place, and policy must constantly adapt accordingly. This kind of adaptation becomes all the more difficult when a superpower like the United States must make tradeoffs between its economic policies and its military policies.

Turbulence

Finally, of course, there is the fact that much of the world is undergoing rapid and unpredictable political change nearly every day. Few people would have guessed twenty years ago that nationalism would be such a strong force in world politics, particularly in the Third World. Our own experience, and the experience of our European allies, suggested that while nationalism would remain important, it would lose its intensity as a force. But what might have been true in Europe has not yet proved true in the Third World. Country after country is seeking to find its place in the sun, often at the cost of military conflict.

Just as important, the "revolution of rising expectations" continues to pose severe challenges to many of the developing countries. People who have learned that the rest of the world lives well and eats well want the same things, and they want them soon. When such people moreover must live in a political system which is ineffective or corrupt or repressive, they quickly lose their tolerance for the status quo. If such pressures for change are coupled with feelings of nationalism — as they have been in much of the Third World — the potential for rapid and unexpected change is very high.

Unfortunately, such events do not take place in isolation all the time. For instance, the revolution in Iran directly affected this country, both because our diplomats were held hostage for more than a year and because the Iran-Iraq War continues to pose a potential crisis in a region where the United States has strong national interests.

Just as important, when such crises occur, they can affect other aspects of world politics, such as international economic relations or the superpower military balance. For instance, the Iran-Iraq War has resulted in a reduction in the net flow of oil out of the Persian Gulf, which has directly affected the European and Japanese economies. Moreover, there is always the risk that the war could spread to other countries, such as Saudi Arabia, or that it could involve Israel either directly or indirectly. And, of course, there is always the specter of possible Soviet intervention. Any of these outcomes would have a pronounced effect on world politics, and all are of concern to the United States.

The world political arena, therefore, is one which has certain elements of stability and certain elements of instability. When the latter become too intense — when things change too rapidly and too unpredictably for people to anticipate — the entire structure can be affected, even the most stable elements. It means that we can be affected by or dragged into crises which we did not want or even anticipate but which we cannot escape. We are fully involved in the world, like it or not, and it is the essence of good policy to try to anticipate change, minimize risks, and prevent change from becoming crisis and crisis from becoming conflict.

In short, we are not involved in the world simply because of some abstract concern with a "global balance of power." We are involved in world politics because we live in the world, a world which is dynamic and which affects our daily lives. There can be no retreat into a Fortress America, if for no other reason than that ballistic missiles have made it impossible to hide behind two oceans.

Interdependence

It is a fundamental reality that the world is increasingly *interdependent* — economically, culturally, and politically. For example, we now rely heavily on other nations for the minerals and raw materials which keep our economy moving — oil, bauxite, chromite, cobalt, manganese, and so forth — and we Americans are everyone's biggest market. Fully one-fourth of our Gross Domestic Produce is directed to foreign trade, up from twelve percent in 1970. And we have discovered we cannot sustain a U.S. agricultural economy without viable foreign markets to the point that grain embargoes may now be an anachronism of foreign policy. Just as foreign countries are important to us, so we too affect the lives and fortunes of other nations. In short, we are now more fully involved in world affairs than ever before, and this interdependence will only increase.

Interdependence creates vulnerabilities as much as opportunities. With our lives now directly affected by decisions and events over which we have relatively little control, we have lost — probably irretrievably — the absolute dominance which we enjoyed over world affairs for the decade following World War II. At that time, we were the only nation with substantial numbers of nuclear weapons; our economy was booming while the economies of other industrialized nations lay in shambles; we were net exporters of oil and other critical minerals; and our political power within the international community was unchallengable. So at the same time that we have become dependent on other nations for our own welfare, we have to some extent lost our ability to dominate world affairs.

Many people have persuasively argued that interdependence is a force for stability in world affairs. Since at least the early 1900s, people have suggested that as nations become more economically involved in each others' affairs, they will have fewer and fewer incentives to fight and more and more incentives to keep the peace, since warfare would destroy their common economic resources.

There is some evidence to bear out this view. For instance, as the states of Europe have become more interdependent, they have become far less prone to consider conflict with each other.

But there is evidence to suggest just the opposite as well. For instance, our dependence on foreign oil has caused as much friction with oil-producing states as amity.

What this means, I believe, is that interdependence is simply a neutral phenomenon in world affairs, like any other phenomenon, and that it can result in good or ill depending on circumstances and on the skills of statesmen. Certainly, interdependence is a sort of sharing of strengths, but it is also a sharing of weaknesses, and it can be an irritant as much as a balm. Ask any Third World leader how he likes being "interdependent" with the industrialized countries, and you are likely to get a very mixed answer. Even at its most benign, interdependence can create unanticipated difficulties in world politics, for the actions of one state can create effects far beyond its own borders. When the Internal Revenue Service cracks down on tax-deductible business trips to the Caribbean, the impact on American taxpayers is miniscule compared to the impact on the economy of the Caribbean states.

Thus, the effects of interdependence — never fully understood — create a very fluid world. And to this world the United States presents a complex face. In some respects, we are a continental power, withdrawn from the world, self-reliant, and traditionally suspicious of foreign entanglements. But in other respects, we are an island nation, fully dependent on the world for trade, resources, and allies. We have the longest undefended borders in the world, but we have little real control over our own sovereignty, a fact well known to refugees and smugglers alike. We are oriented both toward the Atlantic powers and the Pacific powers, and we look inward as well. Much of the world is suspicious of our intentions, jealous of our wealth, cynical about our diplomatic skills, but totally enamoured of our spirit and our national character. It is no wonder that world politics presents so complex a challenge to this nation.

Continual Challenge

A final reality which we must understand about world politics is that we Americans are by nature interested in the status quo. This does not mean that we do or should look with favor upon repression in the name of anti-communism, poverty in the name of interdependence, or rigidity in the name of democracy. We have occasionally been guilty of such things. But we are also the nation which annually spends billions on the United Nations, on foreign aid, on disaster relief, on the World Bank, and on and on. We are the nation which created the Marshall Plan to revive the European economy — and which offered to make this aid available to Eastern Europe as well. We are the nation which created the Alliance for Progress, the Peace Corps, and Food for Peace. It is to our Declaration of Independence that many emerging nations have turned for inspiration. We do ourselves and our neighbors no good if we forget this, or if we denigrate our own traditions.

To be interested in preserving the status quo means fundamentally that we wish to anticipate change rather than react to it, to let evolution rather than revolution guide the destiny of world politics, to help manage events rather than be managed by them. Our track record in this regard is not altogether good, but it is not bad either.

By contrast, the Soviet Union represents a classic "have-not" power with a vested interest in a radical change in the world political system. The Soviets, like the Czars before them, are horribly insecure. Their huge country represents a plain which can be and has been invaded repeatedly. Their access to the open ocean is restricted to a few ports. They are surrounded by nations which they either occupy or with whom they have fought in the past. Their definition of security requires that they be wiley, expansive, and deeply mistrustful of the status quo unless they fully control it.

Clearly, the Soviet Union is an extraordinarily cautious nation. Partly, this is because they are able to comfort themselves with the belief that time is on their side, and that they can therefore afford to take the long view and a setback here and there. But their caution also derives from a recognition that they are potentially vulnerable, particularly in the age of nuclear weapons. Nothing is worth a nuclear war. As thorough students of Clausewitz, the Soviets understand that the consequences of a war fought with nuclear weapons would overwhelm any possible political end.

What this means is that the Soviets are not risk-takers, but they will capitalize on all probable sources of instability in order to promote their own long-term interests. It is foolish to claim that the turmoil in Central America or the Middle East has occurred because the Soviets have caused it. But it is also foolish not to realize that as events permit, the Soviets take advantage of this instability, if for no other reason than to distract us. Like all opportunists, the Soviets will push until they meet resistance. They will not push when to do so brings them into direct confrontation with the U.S. over clearly-defined stakes. This would risk a war which would spell the end of all politics. But they will push when it appears in their interest to do so, particularly in areas where interests are vague, stakes are unclear, and the potential payoff is high. This means that we face a continuous series of challenges when confronting the Soviet Union and its allies, and that we will do so for the foreseeable future, since world politics will remain dynamic and unpredictable for many years to come.

These realities — global interests, dynamic world politics, interdependence, diminished power, and frequent challenges — must therefore shape our own foreign and defense policies. Specifically, we must tailor our force structure — the size and composition of our military might — around a strategy that seeks to dampen the opportunities for Soviet adventurism. We simply cannot overlook such things as the huge Soviet military presence in Europe, the increasing Soviet presence in the Middle East, Persian Gulf and East Asia, and the Soviet proclivity to feed disturbances throughout the world. History teaches too well that crises ignored result in confrontations far more severe than anticipated.

But we cannot hope nor should we seek to erect a military structure which matches the Soviets man for man. Instead we should seek to capitalize on our natural strengths, diminish our weaknesses, and carefully tailor our policies to realities and our forces to our policies. An imbalance in our efforts — a "strategy-force mismatch" — is wasteful at best and dangerous at worst.

B. The Role of Force in International Politics

H.G. Wells noted that the history of mankind can be best understood by studying the history of weapons. Nation still lifts up sword against nation, and swords have not been beaten into plowshares. Military force remains a common instrument of statecraft in world politics. So long as it does, the United States will continue to pour billions of dollars into the defense budget.

It was assumed by many that the advent of nuclear weapons, with their potential for annihilation, would diminish the use of force in world politics. Ironically, military conflict seems if anything to be on the increase throughout the world. Even the nuclear-armed states have not refrained from using or threatening the use of force when they have thought it in their national interests to do so. Far from constraining conflict, it is possible that the very insanity of nuclear weapons has tempted national leaders to use other forms of military power, knowing that no nation can rationally respond with a nuclear weapon to a provocation which is less than cataclysmic. Whatever the reason, force remains a viable and widely-used medium of political expression in the international arena.

This is nothing to celebrate. It is not a happy thought that despite treaties outlawing the use of force, and despite the ever-present danger that a small fight can escalate into a major nuclear war, conflict continues. It certainly does not indicate that people have somehow learned to "manage" the application of military force.

The Fallacy of Precision

We hear occasionally — less now than a decade ago, but still too often — about the possibility of a so-called "surgical" military strike. There is nothing clean or surgical about the application of military force. Fighting is a messy business, one that cannot be fine-tuned or tightly controlled. Weapons go astray. Troops fail to make a rendezvous on time. Critical leaders are killed or disabled. Mud slows things down. The more we delude ourselves that we can plan for every contingency, the more likely we are to fail.

Military force should be seen as an instrument of last resort, one which carries with it many risks, and not as an option which can be called forth to magically compensate for the flaws and failures of statesmen.

Even Clausewitz, who looked upon warfare as a controlled means of settling political differences among states, recognized that military force is an extremely blunt instrument which escapes fine-tuning once fighting has broken out. As he wrote, "war may not have its own logic, but it has its own grammar." In other words, once the decision has been made to apply military force, there is no guarantee that it will remain as "clean" or as limited as planners might wish.

Properly speaking, therefore, a "limited" war is one in which the central *objective* is limited, not one in which the means of force are limited. It does little good to speak of "limits" to the dead and wounded, to the civilians whose houses have been destroyed and families killed by stray rounds, to the prisoners of war, to those who suffer the disease and degradation which accompany armies in the field. Killing is killing, and the limits appear specious to those involved. The fighting is just as bloody for those involved, but fewer people are involved, and some means are occasionally ruled out of bounds.

For instance, the recent war between Great Britain and Argentina over the Falklands Islands was a limited war. It saw many hundreds die on each side, but there was no attempt to destroy either Britain or Argentina as modern nations, or to topple their governments. Instead, the fighting was limited to the issue of who controlled the islands. Once the issue was decided, the war was over, for neither nation felt it worth it to pay the costs of going further. Moreover, there was no use of "strategic" warfare — that which is aimed at a country's economic ability to field a military force. Factories, farms, businesses, and cities were not attacked.

By contrast, World War II was a total war. After President Roosevelt announced that our war aim was the unconditional surrender of the governments of Germany, Japan and Italy, there was no possibility of stopping the war before total collapse had set in. The stated goal of this war was to eliminate the political systems of the Axis powers, and there was no limit on the means used. Strategic bombing of cities killed millions; merchant shipping was sunk in a campaign of unrestricted submarine warfare; huge armies fought battles to the death, and then fought again. The war was total, for the objectives were absolute, and compromise or an early negotiated settlement were not possible under the terms laid down.

In its baldest terms, then, the application of military power is simply the use of violence to obtain a given political end. As Clausewitz stated, it is "an act of violence to compel our opponent to fulfill our will." The larger the political end, the more chance that violence will be deliberately used.

But things are not always so clean-cut. A war begun for limited ends can get out of hand. Motives as simple and as brutal as revenge can push people to inflate their goals. The simple act of trying to get armies to disengage can be fraught with frustration. Just as important, tactical necessity can override political hopes.

In other words, there is simply no guarantee that a war which has begun for limited purposes will in fact stay limited. World War I, which was four years of pure butchery, was started for reasons that appear perfectly ridiculous in retrospect — the continued independence of a minor Balkan principality. Most of the nations expected a quick and decisive victory. The shock of warfare with modern weapons came as a great surprise to everybody, but nobody was willing to call a halt. The fighting settled into a long and brutal stalemate within a few months, and millions died in futile attempts to take a few yards of ground. Scientists on both sides worked feverishly to find new ways to obtain a quick decision — poison gas, armored tanks, aerial bombs, bigger artillery shells. Victory eluded everybody's grasp, and more and more people died. The war ended with all the major European powers — who had thought they understood how to use force as a rational instrument of statecraft — prostrate and bled white.

In short, there are no guarantees when push comes to shove. Nuclear weapons have made this risk even greater, for there is simply no way in which to envision that the use of a nuclear weapon against a nation's cities will keep things "proportionate" or "limited." Even if the weapons are not aimed at cities, but instead at isolated military targets, millions are likely to die from fallout. This will certainly invite retaliation, which will in turn lead to counter-retaliation, and so on. Even the use of a so-called "battlefield" nuclear weapon against a strictly military target runs awful risks of escalation, for once the threshhold between nuclear and non-nuclear war is breached — a threshold which is clear, prominent, and universally understood — it is not improbable that restraints and limits will be progressively loosened until the world has slid into general nuclear war.

What all this means is that even in the best of circumstances, the decision to commit military force to a conflict is one of the most weighty that can be taken. It also means that we should have no misunderstandings or delusions about the prospects that force will do what it is supposed to do: obtain a quick, decisive, and favorable outcome to a dispute at acceptable costs.

The Uses of Force

Military force is most effective *before* it is used. It is a device by which to signal seriousness of intent. Even a nation which is bent on conquest would prefer a bloodless surrender to a fight, no matter how quick and decisive the outcome. If military force is to have any meaning, that meaning is as an instrument of diplomacy, not as an instrument of destruction.

To what purposes can military force be put? It can *signal*, usually by threat of coercion, that a nation takes a given issue very seriously. For instance, the American troops now stationed in the city of Berlin are hopelessly outnumbered, and would be quickly cut off and defeated in the event of a move by the East Germans or the Russians. But by being there they make it unambiguously clear that an attempt to take Berlin will mean that Americans will die, and that there is therefore a high risk that we will respond. The principal value of the Berlin Brigade, in other words, is that it signals intent, and it does so in an unambiguous way. Ironically, a very small military force is therefore able to help us face off a much larger force. The real value of this brigade is in peace not war.

Just as important, a military force can be used for *offense*. It can engage and beat the military force of another nation, and it can thereafter occupy and hold ground. It can do so for a defensive purpose — for instance, by taking the initiative away from a hostile enemy about to strike, as the Israeli military did in 1967. It can also, of course, do so for reasons of simple conquest, as Hitler's armies did in World War II. But once again, the chief utility of an offensive force lies in peacetime, for if it is strong enough to be clearly unbeatable, the nation can either prevent an attack or convince an opponent to surrender without a fight.

Third, a military force can be used to *defend* territory. It does so chiefly by being strong enough that an attacker cannot break through and occupy ground. In other words, it has the strength to impose costs which make any significant gain impossible. The purpose of the large West German army is to defend its territory against an attack. It is an army which is prepared to occupy strong defensive positions, to beat back an attack as close to the border as possible, and to do so with the minimum possible loss of men or territory. Like any military force, the West Germany army might resort to a local counter-attack to consolidate its position, but it is not oriented around full offensive action. Once again, its chief value lies in its peacetime ability to make clear to the Russians that an attempt at conquest will simply not succeed. If the West German Army must be committed to action, it will mean that German security policy has failed.

Finally, and perhaps most important, military force can be used to *deter* an attack. Deterrence is simply the art of dissuading an opponent from undertaking some action. Quite clearly, a strong defense can deter, by making it clear that an attack will fail. Equally, the Berlin Brigade is there to deter as well as to signal our interest. But, in principle, deterrence differs from the other uses of military force by threatening *punishment after the fact*, regardless of whether an attacker succeeds. While a *defensive* use of force can persuade an opponent that he won't succeed, a purely *deterrent* use of force is one that makes clear to the opponent that even if he succeeds, he will be punished by a counter-blow.

Deterrence is the diplomacy of violence at its most refined level. By definition, it works only if there is no resort to force. Moreover, it seeks to dissuade an opponent from undertaking a given action. In this respect, it differs from pure coercion, which is intended to make an opponent commit an act, rather than refrain from committing one. It is more limited in scope than other uses of force and usually does not require more than a minimal amount of force — just enough to make the threat of retaliation or punishment clear and credible to the opponent.

It is obvious that the distinctions among signalling, offense, defense and deterrence are not always clear-cut. It is also obvious that most nations will use their military forces to pursue more than one of the aims I have mentioned. Modern military forces are large enough and diverse enough to permit a nation to undertake any or all of the major uses of military power. But the fundamental point remains clear: military force is most useful precisely when it does not have to be used. It backs up diplomacy by making intentions clear, by setting conspicuous limits, and by influencing behavior. If unleashed, it is fundamentally purposeless, except in cases where major national goals — such as survival — are at stake. Its actual use is an admission of failure in diplomacy. It serves no other end than to give weight to the words of statesmen. It is clearly subordinate to the political goals enunciated by national leaders. It is not an end in its own right.

As the noted strategist and military historian B. H. Liddell-Hart once wrote:

> [The strategist's] true aim is not so much to seek battle as to seek a strategic situation so advantageous that if it does

> not itself produce the decision, its continuation by battle is sure to achieve this.

In other words, the aim of a great general is not to fight, but to make it unnecessary to fight in order to obtain the goals sought. Similarly, the aim of a political leader should not be to build military forces in order to use them, but to avoid the necessity of their use. This is especially true in the nuclear age.

Force in American Policy

What this means is that the American military posture must be chiefly aimed at *deterring* an opponent while *reassuring* our friends. Our military forces must invite calm, not panic. They must signal resolve and consistency, not a failure or will or a wild swing in purpose. They must be strong enough to make it abundantly clear that an attack on our country or its allies and interests will be fruitless, but not so strong as to suggest that we are hoping for a fight. Our forces must be tailored to our diplomatic purposes: deterrence of an attack on the U.S. or its allies; the preservation of our freedoms; the promotion of an international system that encourages interdependence while permitting fruitful change.

Above all else, since the international political system is so potentially turbulent, our forces must be capable of *crisis management*. They must permit us to respond to unanticipated crises by assuming a strategic situation "so advantageous that if it does not itself produce the decision, its continuation by battle is sure to achieve this." In other words, our forces must be able to resolve a crisis *before* it gets out of hand, *before* anybody is tempted to fight, by making it clear that fighting is both horribly risky and totally fruitless. In this way, crises — which are an inevitable byproduct of today's international system — will not become wars.

To summarize, military force is useful only to the extent that it serves clear policy goals — goals which must be determined by our political process. Military force is a subordinate element of statecraft, not the definition of statecraft itself. And statecraft, in turn, requires the ongoing and regular participation of an informed public. It is the public which ultimately sets limits and decides goals. If it fails in this, it invites the foolish use — or non-use — of military force by a government which tries to steer without a rudder.

It is clear that, despite the hopes of many people, military power continues to be a currency in international politics. It is also clear that we cannot escape some degree of involvement in world affairs. So long as force is a common factor, we cannot fail to incorporate it into our own dealings with the world. Self-preservation demands at least that much. Moreover, it is also clear that military force best serves the public interest when it is used to back up our diplomacy in such a way that it is never used.

In all these things, the American public, and its Congress, have and should have a large role to play. It is the public which can ultimately determine the degree of our active involvement in world politics. Some involvement is inescapable, and the amount is probably growing because of circumstances beyond our control. But the limits of that involvement can be and should be set by the political process.

Similarly, the limits on our military force posture, and the uses to which that force posture are put, can be and should be set in large measure by the public. It is the public which defines the acceptable limits of risk-taking. It is also the public which ultimately funds the military, and shares the risks of conflict.

That is why it is so important that the public develop and retain a strong interest in international security issues. To fail to do so, on grounds that involvement doesn't really matter, or that we should leave it to the "experts," is to overlook a fundamental duty and a clear reality. The more that people think, talk, and write about security affairs, the more assured we are that the purposes of military power remain consistent with our own needs, desires and ideals. This does not mean that we in the public can become systems analysts, avionics engineers, or professional tacticians. But it does mean that we can and should be actively involved in the ultimately political aspects of defense policy: the creation of limits and goals which the military should serve, and the monitoring of the military's performance in achieving those goals.

C. The Soviet Military Threat

For the foreseeable future, the principal military threat to the United States will come from the Soviet Union and its allies. Although the turbulence of world politics means that we would be foolish to focus our attention solely on the Soviets, and although our own self-interest dictates that we should actively pursue a diplomacy aimed at lessening tensions with the Soviets, the fact remains that only the Soviet Union has the capability to directly harm our country in a massive way. This alone would dictate that we should plan our defensive capacity with an eye to the Soviets, for a military which can deter a Soviet military threat should also be capable of handling lesser threats if provided sufficient flexibility.

But we must be concerned with more than Soviet military power. After all, other nations are quite powerful themselves, but they do not threaten our security.

It is the combination of Soviet military power and Soviet foreign policy which has necessarily preoccupied American planners throughout the entire post-World War II era. The Soviets increasingly view themselves as a global power, not merely a continental behemoth. They have undertaken military actions in support of armed forces throughout Africa and Asia. They sit in massive numbers only a few miles from our allies in Western Europe, and are increasingly prone to use their power as a means to intimidate the leaders and the populations of neutral and Western countries. They are a strong and potentially dangerous country, and their interests are too often inimicable to our own — in the Middle East, in Europe, and in much of the Third World.

Simple prudence would dictate that we retain the military strength needed to deter a test of wills. In areas like Western Europe, where the issues are well defined, it is perhaps less likely that a crisis could spill over into a military confrontation. But given the extreme instability which is likely to be manifested throughout Eastern Europe over the next few years, we cannot count on history and diplomacy alone to ensure that things are kept under control. We need the strength to lend confidence to our allies in the event of a crisis. Outside of Western Europe, where stakes are less clearly defined, we need the strength to avoid the kind of surprise which so often results in crisis.

Clearly, there are many ways to manage international affairs so that surprise doesn't lead to crisis and crisis to conflict. We should ignore none of them. But military power must remain an important element of our dealings with the Soviet Union and its allies. For instance, we cannot depend simply on the threat of trade sanctions to deter a Soviet move into areas where our interests are at stake. Less than two percent of the Soviet Gross National Product (GNP) is devoted to trade, so there is very little leverage in a threat to restrict trade relations. Moreover, as past experience has shown us, attempts to embargo even such vital commodities as grain or high technology tend to hurt American producers more than Russian leaders.

The challenge offered by the Soviet Union is fundamentally political and military in nature, and it must be in the diplomatic and military arenas that we have the strength to respond. Our forces must be strong enough to do what is required to deter conflict. Other measures are not sufficient by themselves.

But this calls for an element of caution as well as for concern. It is both senseless and hazardous to undertake a crash program of military defense spending simply to regain the strength which we have "lost." As former Secretary of Defense Melvin Laird has cautioned us, constancy of purpose is far more important at the moment than the particular amounts which we might wish to devote to defense spending in a given year. Our national defense capacity has been gradually but systematically eroded over the course of many years, and we simply cannot hope to recoup our losses overnight. We must set about a purposeful program of rebuilding; we must seek, in Mr. Laird's works, "a buildup, not a binge." Anything else risks severe economic dislocations and would threaten the consensus in favor of stronger defenses. It also risks sending precisely the wrong message — a message of hysteria — to our allies and our adversaries alike.

In other words, strength is as much a matter of the *image of confidence* which we project as anything else. History teaches that a country which is strong and purposeful is a country which need not fear a challenge. Strength of purpose deters attack and defers a test in the international arena. Weakness, vacillation, and inconsistency of national purpose invite attack and provoke a test.

Finally, of course, we should be aware that in many facets of defense policy, strength is a relative rather than an absolute concept. While the United States is undeniably strong — in its people, its will, its economic potential, and its military policy — there are a number of disturbing trends in the international arena which we ignore at our peril.

The Growth in Soviet Military Capability

First and foremost, of course, is the astonishing and unprecedented growth in Soviet military capabilities, growth which has occurred on a regular basis since 1963. This growth coincided with a decline in our own attention to an overall strategy for national security, and to defense spending in particular, because of our excessive attention to the Vietnam War and other policy debacles.

For those who are concerned that it is we who are about to enter into — or to stimulate — a new arms race, it is worthwhile recalling the massive growth in Soviet power. President Carter's Secretary of Defense, Harold Brown, repeatedly testified that it is simply not correct to assert that we are now engaged in an "arms race." As he stated on several occasions, "When we build, the Russians build. When we don't build, the Russians build." This pattern of Soviet growth during a period of American decline has led to a potentially disturbing situation in the military balance. To cite a few examples:

> The CIA recently estimated that Soviet defense spending exceeded our own by roughly $70 billion — some 50 percent — in 1980 alone. Over the 1970s, the Soviets are

> estimated to have spent a staggering $532 billion more than the United States on military programs. Finally, the amount of funds devoted to Soviet military programs has increased each year over the previous year's effort.
>
> The United States Navy has declined from 1003 ships in 1964, and 980 in 1968, to a current fleet of less than 500, the lowest figure since Pearl Harbor. Moreover, many of these ships are soon due for retirement. By contrast, the Soviet Union — a nation which has traditionally been a continental rather than a maritime power — has deployed a first-rate Navy of 540 major surface combatants, supported by another 1200 auxiliary vessels. The Soviets are now building two surface vessels for each one of ours, and five submarines for each one we produce. This situation has led our Chief of Naval Operations to speak of a genuine crisis in American maritime power.
>
> The Soviets have more than 4 million men under arms right now, and their combat reserves — those who have had military training in the last five years — amount to more than 20 million. In the United States, the comparable figures are 2.1 million and less than 1 million, respectively.
>
> By nearly every available measure of conventional force strength — numbers of tanks, divisions, artillery pieces, and so forth — the Soviets outnumber the U.S. by ratios no lower than two to one. The total Warsaw Pact outnumbers the NATO alliance by comparable ratios in most areas.
>
> Soviet strategic nuclear forces have grown impressively in the past decade, and now represent a theoretical threat to the survival of our own strategic nuclear forces, thereby severly threatening the stability of the nuclear balance.

I could, of course, go on with similar figures, but the fundamental point of this review is clear: Soviet efforts over the past two decades have resulted in first-rate Soviet military forces, forces which not only threaten NATO, China, Southwest Asia, and the Middle East, but forces which are increasingly being used abroad in direct support of Soviet political goals. Over the same time frame, American neglect of the defense budget has reduced our once unquestioned edge to a point that has become increasingly dangerous.

Just as disturbing as these quantitative trends are Soviet technological gains. for instance, their most recent submarine appears to be built with a titanium hull, permitting it to dive deeper and run faster than any American submarine. Their intercontinental ballistic missiles are potentially very accurate — some people say even more accurate than existing American missiles. Their tanks feature automatic cannon loaders and very sophisticated gunsights.

Traditionally, the United States has compensated for the Soviet edge in forces with much more sophisticated equipment. We can no longer take comfort, however, in the thought that our forces are always better than theirs, even if theirs are bigger than ours. The fact is that Soviet military technology is frequently the equal of our own. It's true that Israeli pilots and soldiers using American equipment proved their superiority to Soviet-equipped forces in the recent war in Lebanon, demonstrating that American military technology is still first-rate. But that doesn't prove Soviet inferiority. Much of the equipment fielded by the Syrian military was not first-line Soviet gear, and the Israeli military was far better trained than the Syrians. It would be something else to see well-trained soldiers and pilots using the newest Soviet equipment, for the Soviets have invested much effort in the "qualitative arms race."

But even a crude comparision of strength can cause us to overlook some substantial advantages we have. We should avoid the temptation to view the Soviets as overwhelmingly powerful, for they are not. They are average humans, not ten feet tall. Our relations with the Third World nations are growing stronger every day, while those of the Soviets are growing weaker. This means that areas which are traditionally viewed as pro-Soviet are less volatile, an important development. They have sustained some serious reverses in the past decade, including their ejection from Egypt by President Sadat, and the enormous loss of influence as well as the severe military difficulties they have suffered as a result of their brutal invasion of Afghanistan.

Moreover, as we have often forgotten ourselves, national power does not begin and end simply with military force. A nation's economy, its agricultural output and mineral deposits, its allies, and its political will are all crucial measures of national power. If Russian leaders do not recognize this now, they soon will, for they face an uncertain future in each of these respects.

The population of independent-minded minorities — Georgians, Turkemens, Moslems, and others — is growing very rapidly, threatening the internal stability of the USSR. Moslem troops sent to Afghanistan were so reluctant to carry out the orders of their superiors that the Soviets were forced to transfer them out of combat and replace them with first-line troops from elsewhere in the Soviet empire. Clearly, this does not bode well for a political system built on tight controls and the glorification of a minority ethnic Russian culture.

The economy of the USSR is staggering under a series of problems ranging from under-investment to the inherent inefficiency of any communist economy. As overall population growth declines, labor shortages are increasing, particularly in the skilled trades. Rates of economic growth have declined from an average of six percent annually in the 1950s to only three percent over the last few years. Worker productivity is almost unbelievably bad. So few Soviet citizens have any faith in their future that alcoholism has become the leading disease — and the leading cause of worker idleness — in the Soviet Union.

Finally, of course, the Soviet empire is beginning to show signs of long-term strain and an inevitable decline. The demands for freedom and dignity which we are now witnessing in Poland are being repeated throughout the Soviet empire, and even within regions of the Soviet Union itself. Moscow's capacity to meet these demands, whether by buying people off with more consumer goods or by selectively relaxing the bonds of dictatorship, is severely limited. Resort to repression, on the other hand, only fosters greater tensions.

Aside from the strains which such trends place on the Soviet system, the growing signs of unrest in Eastern Europe make it very clear that the Soviets cannot have high confidence in their Warsaw Pact allies. While many of the soldiers who carry arms for the Warsaw Pact would doubtless fight, and fight well, many others would not, particularly if to do so meant that their homelands would be jeopardized. As policy-makers in Germany often point out, a war in Europe would be a civil war for Germans, for it would pit West Germany against its East German cousins — something which could clearly inhibit many East Germans from carrying out the orders of their imperial masters. Finally, of course, the Soviets must always be alert to the specter of China — a country which deploys hundreds of thousands of troops along the Russian border, and a country which has long-standing grievances with the Soviet Union. In the event that the Soviets were to become involved in fighting in Europe, they could not count on calm on the eastern front.

It is important in making defense policy to recognize that the Russians are not supermen, that their massive buildup of military power cannot solve and may actually worsen their long-term problems, and that we in this country have a defense in depth they cannot match.

But if the Soviets are not supermen, they are still strong at least for the moment. Their military power is real, and it is menacing. One of the things which may make the 1980s the "dangerous decade," as it has been called, is precisely the combination of internal Soviet weakness and external Soviet strength. This has proved in the past to be a fatal combination, and it could be so again. A nation which knows that the long-term is not favorable, which knows that its greatest strength lies in the present, which knows that its only real source of power comes from a gun, is a nation which can be tempted to act rashly from time to time, in order to consolidate its momentary gains while it still has the chance. The Austro-Hungarian Empire acted this way, as did Imperial Japan. This does not mean that we are doomed to a confrontation with the Soviets. But it does mean that we should treat them with a judicious mixture of calm and caution, strength and diplomacy. If we are too weak, we invite a test. If we are too harsh, we do the same. We must have the military means to resist rash action, but now more than ever we must deepen our understanding of international relations, for that will be our strongest defense.

D. Planning Guidelines and the Reagan Administration

If our military posture is to reflect our interests as a global power, it must provide for forces which are flexible enough to operate world-wide, strong enough to deter a test of wills, and robust enough to manage crises before they develop. This is easier said than done, but it suggests some overall planning guidelines by which to assess and measure our capabilities. Keep in mind that these guidelines are designed only to set limits on the size of our forces, not to prepare for specific conflicts. In other words, we can constrain the size of our military only if we prepare guidelines which provide both for the most likely and the most severe possibilities. The Reagan Administration has set three such guidelines.

First, the Administration argues that if a conflict involving the Soviet Union and the United States should break out, it *might* go on for as long as six months or more, possibly involving a series of "nibbling" actions in regions where neither nation has a clear preponderance of force. This does not mean that such an outcome *will* occur, only that it might, and that we should consider planning against it.

This contrasts with the Carter administration, which began by holding that any conflict between the Soviets and the United States was likely to occur in Central Europe, and that it would be ended — either by negotiation or by nuclear suicide — within 30 days. President Carter sized our military forces accordingly, giving them the ability to operate in high intensity conflict for one month, but downplaying such things as substantial reinforcements or amphibious intervention capabilities. In particular, he viewed the Navy as largely irrelevant to such conflict, and therefore let its size and its quality decline.

President Carter's planning was both unduly optimistic and unduly pessimistic, and it was wise of President Reagan to modify it. It was optimistic in that it presumed conflict would be so brief when all experience suggests otherwise. Moreover, it focused on Europe to the exclusion of other potential conflict areas, such as the Middle East or Southwest Asia, where President Carter himself later became concerned about the possibility of Soviet intervention. But the view was pessimistic in that it presumed that rapid escalation to nuclear warfare is virtually foreordained, when such escalation is clearly in no one's interest.

It may be too much to ask American forces to store supplies for up to 90 days of warfare, as Secretary Weinberger has done. But it was clearly the case that the Carter guidelines were inadequate. They accounted for the most severe possibilities, but not the most likely ones, and they left our forces too weak and too oriented around a European scenario. Generally, therefore, the first planning guideline offered by the Reagan administration is appropriate.

The second planning guideline offered by the Reagan administration calls for an American military which can engage in conflict in several regions simultaneously. In other words, the administration wants to have forces large enough to undertake warfare in more than one theater if circumstances dictate. Obviously, this is both ambitious and controversial.

Under Presidents Kennedy and Johnson, we pursued a policy of building forces large enough for what was called a "two and one-half war capability." The assumption was that we faced two separate potential enemies in China and Russia, and that we needed as well to be prepared for smaller "brushfire" wars. Hence, it was thought that deterrence was best served if we had forces at least theoretically large enough to engage all likely opponents simultaneously, even if such a catastrophe was not at all likely.

This guideline disappeared under President Nixon, who recognized that the Soviets and the Chinese were far more likely to fight each other than to jointly attack us. Moreover, President Nixon sought to lower our profile in world affairs following the dismal experience in Vietnam. Therefore, he moved us to a "one and one-half war capability" — focused on NATO and Korea — which permitted us to deploy substantially fewer forces. He made up the difference chiefly by bolstering client states in the Third World through arms sales and other techniques.

By the close of his administration, President Carter was suggesting that we work under the guidelines of a "one plus one-half plus one-half war" posture. This would permit us to continue to focus on central Europe and Korea while accommodating the Rapid Deployment Force which was erected under the "Carter Doctrine."

The Reagan administration, like all its predecessors, has begun with our firm commitment to NATO, a "one war" theater for planning purposes. They have accepted as well our commitments in Korea and the need to focus on the Middle East and the Persian Gulf, as well as such areas as the Caribbean, where Defense Department analysts note with alarm that Cuba is gaining a powerful naval and military capability. Simply building enough forces to handle likely threats in all these regions represents a staggering burden.

But the administration has gone further still. It argues that if we should ever be faced with a conflict in Europe or Korea or the Persian Gulf, it is unlikely to remain localized. Instead, they argue that an attack on Europe or some other key area might eventually be accompanied by an attack elsewhere. Indeed, some civilian officials in the Navy Department have urged that we initiate such attacks ourselves to put pressure on the Soviets through "horizontal escalation" in the event of a Soviet attack elsewhere.

Secretary of Defense Weinberger has deliberately refrained from using terms like "two and one-half war capability," but it is clear that he wants to return to (and perhaps exceed) the limits set by that policy guideline. The requirements would be immense.

While we cannot afford to devote our efforts solely to Korea and Europe, particularly in the world I have described, I find that I must disagree with the administration's assessment of what is required. Their planning guideline is virtually an open-ended commitment to more, but they have not made clear just what end is served. The *Army Times*, a newspaper which is obviously not prone to reflect "anti-military" themes, has harshly criticized current plans on grounds that they do not reflect either careful thought or the likely needs of the military, but instead are simply a quest for more money for the sake of more money. We cannot afford this from any standpoint, whether military or economic. How far will we go in planning for the kind of global war which would only be an invitation to thermonuclear escalation? And wouldn't the Soviets be the chief beneficiaries of an American plan to keep spending money to have forces capable of operating all over the globe simultaneously?

I believe, as Secretary Weinberger does, that we must guard against opportunism by the Soviet Union and its client states like Syria, Cuba or Libya. I have no doubt that if we were to become involved in a conflict in, for instance, Southwest Asia, there would be a strong temptation for trouble-makers to consider probing elsewhere. We must have the reserve strength to make such probing unattractive. But I feel that it is simply unrealistic to hold that conflict would spread virtually worldwide, and that we should be ready for it. The only global war under today's circumstances would be nuclear war, and it is that basic reality which will inhibit people from trying "horizontal escalation" in the first place. The planning guideline is so imprecise — after all, nobody can say what a multi-theater war would look like — as to be no guideline at all. Rather than setting limits, it invites a strategy-force mismatch.

Beyond these guidelines, however, the Pentagon has not laid out an explicit geopolitical strategy. All their emphasis has been on a variety of force requirements such as "readiness" or "modernization." This means we have a *program* for military spending, but little in the way of a *policy* to help us set priorities. As Henry Kissinger recently remarked:

> Essentially, I agree with the strengthening of American defense and I agree with the general attitude that it

> reflects. But if asked to what strategy that increased defense expenditure is allied, what it is we should be aiming for in a specific way, I have to tell you honestly that I have difficulty in finding an answer.

We need more than a discussion of the requirements for more (and more capable), American forces. We need to know where and how such forces might have to be used. In essence, we must ask ourselves three questions: What weapons do we plan to buy? For what strategic purposes do we plan to buy them? How can we manage the development and deployment of these weapons to ensure that we get a dollar's worth of defense for each dollar we spend?

In short, we need a sense of the strategic priorities which must govern our defense policy. One such priority can be found in geo-politics — an examination of the particular characteristics of our country in terms of its location, its resources, its strengths, and its weaknesses.

E. A Maritime Strategy for the United States

From our earliest history, the United States has been a maritime nation. Our national interests have been entwined with our geographic location astride two oceans. For roughly the first one hundred years of our independence, we were able to use the oceans as a buffer separating us from international threats. Now, the sea is a highway — "the great commons," as Alfred Thayer Mahan called it. Ninety-nine percent of our foreign trade occurs by ship. We went to war with the British in 1812 and with the Germans in 1914 in large part because they were denying us free passage on the oceans.

By contrast, the Soviet Union is a continental power, and has been throughout Russian history. Although its coastline is much longer than ours, very little of it gives free access to the oceans. But if the Soviets are basically landlocked, they are largely self-sufficient and do not require access to other continents for trade. Whereas we tend to trade over oceans and to value freedom of the seas as vital to our security, the Russians tend to trade over land routes and to value terrain as a vital buffer for their security. The Soviets can reinforce most of their allies by marching overland. We can reinforce most of our allies only by crossing the oceans.

In other words, our status as a maritime nation offers both vulnerabilities and opportunities. We are vulnerable to the extent that the oceans offer an open highway to our enemies. And we are vulnerable to the extent that our free access to other nations is threatened by any power. But we have a superb opportunity to respond rapidly and flexibly to situations around the world because of the oceans. Our access to the oceans also means that we can erect our first line of defense far away from our homeland. The oceans that served as a barrier to invading forces throughout our history now permit us, in the event of a conflict, to carry the fight elsewhere. That is the essence of our traditional military strategy of "forward deployment."

Fundamentally, therefore, we should ensure that our foreign policy guarantees freedom of the seas in peacetime and that our defense policy ensures control of the seas during crisis or conflict. To act as though we are a continental power is to compete with the Soviets where they are historically strongest and to maximize our weaknesses. To act as a maritime power is to play to our strengths and to capitalize on Soviet weaknesses. A maritime strategy — a strategy aimed at controlling the seas — is the strategy of a global power with global interests. A maritime strategy is flexible and can be tailored to changes in the world situation.

This does not, of course, suggest that we can or should withdraw from Europe, for the *aim* of a maritime strategy, like any other, must be to protect our interests and deter our adversaries. We must view our commitments overseas as precisely that — commitments *overseas*. We must remember that those commitments will be met by traveling over the oceans. The oceans are to us what the ancient trading routes of Central Europe and Asia Minor are to the Soviets — vital communications links over which commerce is moved in peacetime and armies in wartime.

Nor does it mean that we can abandon the ground and air forces, relying only on our navy. Sea power is dependent on land power for air bases and naval ports. The Pacific campaign in World War II was derived from a maritime strategy but it relied on the infantry to seize and hold territory.

A national strategy which emphasizes our maritime heritage is one which not only accounts for our interests, but which is uniquely suited to our strengths. It permits us to adapt with flexibility and precision to changes in world politics. It permits us to shift our emphasis back and forth as needed rather than to try to predict all possible sources of tension or to station American troops everywhere.

A maritime-oriented strategy is also one that most readily permits us to accomplish our chief military goal, crisis management. Crisis management requires a deft combination of force and diplomacy. A naval blockade, for instance, is characterized by far more subtlety than a direct confrontation of ground forces. And disengagement from a crisis is far easier with naval forces, which are readily mobile, than with ground forces, which must be maintained ashore.

For the United States, a maritime-oriented strategy is one that accounts for the world as it now is and as it is likely to be. It accounts for our reliance on the oceans as a source of national security and permits us to capitalize on our natural strengths rather than trying to imitate the Soviet Union. But it is only a geopolitical strategy. It is not an excuse to abandon NATO or to put all our defense dollars into vessels rather than tanks or planes. It simply suggests where our emphasis should lie, both in the sense of a diplomatic grand strategy and in the sense of investments in our military. To translate a maritime-oriented strategy into specific defense proposals, we must evaluate our forces as they are now. This requires a close look at the functions which our forces must fulfill, at how well they are doing, and at alternatives.

F. Realities and Priorities in Defense Spending

Although there is substantial concern about the enormous amounts of money currently being sought for defense by the Reagan Administration, there remains a widespread recognition that we cannot afford to let our security decline so drastically as we did in the 1970s. Instead, we must restore consistency to our foreign policy and strength to our military in order to minimize the chance of tests or crises. Ambiguous policy confuses our adversaries as well as our allies, and a confused adversary is one who is often led to challenge us simply because he does not know that our interests are directly involved. A policy which is not reinforced with strength also invites a test, for only when we are strong can we hope to deter a direct challenge, or feel the confidence to remain calm during a period of turmoil.

Current Realities in Defense Policy

As we continue to spend money on the Defense Department, however, we must take into account a few basic realities. These realities in turn suggest a number of priorities.

The *first reality*, at the risk of repetition, is that we are a global power with diverse interests far beyond our borders. This cannot be escaped. We live in the world, and it affects us. We must therefore be prepared to undertake an active foreign policy, and to have the means to sustain that policy. One of those means will continue to be military force.

The *second reality*, however, is that we are not and cannot be a "global policeman." It is not in our interest to intrude in areas of the world where we have no real interests at stake. It is not in our interest to confront the Soviet Union everywhere it happens to be involved. Instead, we must recognize that we can and should pursue a "division of labor" with our friends and allies. There are some things which only the United States can do in defense of its interests and the interests of its allies. The provision of a robust nuclear deterrent is one of them. But there are many things our allies can do at least as well as we, and perhaps better. We should encourage them to do so.

Third, we must remember that for all its strengths, the Soviet Union has many weaknesses as well. It represents the last true empire on earth, and is therefore an anachronism; its control is already slipping. Its economy is staggering under a huge and largely self-imposed set of burdens. Its geographic situation does not favor too assertive a role in world politics; its huge land-mass is as much a drag as an asset.

Fourth, our policy must be prepared for the management of crises as much as for a direct and deliberate showdown with the Soviets. The world is highly turbulent, and issues and arenas often overlap. What may start as an apparently insignificant event can become an unanticipated crisis, and in this post-war period of bi-polar politics it almost always involves the risk of escalation. Our policy and our forces must be designed to account for this fact.

Fifth, we must understand that, regardless of the circumstances, a resort to nuclear weapons is simply not an alternative. There is no nuclear option. Such a step would simply be mass suicide. Much of our defense planning reflects a long-standing presumption that nuclear weapons are a usable form of military power. They are not. They are useful only for two things: deterrence and suicide. That means that we must be capable of strategizing a way out of each morass — a difficult reality, but one we can meet if we admit to it.

The *final reality* I suggest is that in defense, as in all other areas, there is no free lunch. We cannot have everything we might conceive to be useful at some time. We must make a series of calculated choices about investment. Buying more of one thing will necessarily mean that we buy less of another. Just as important, buying more defense will mean that we must decrease our commitment of public resources in other areas of national need. We must set realistic limits on defense spending, and then we must allocate our defense dollars wisely.

Themes for Defense Spending

Given this set of realities, I will emphasize six related themes throughout this book. Each theme is just that — a theme rather than a nostrum. Each will reflect areas where I believe we should be devoting our defense efforts. Each implies that we should be doing one thing more than another, but not that we should be doing one thing to the exclusion of all others. Each such guideline is a matter of "more than," not "rather than," a matter of emphasis, not absolute commitment.

The first theme which will appear throughout this book is that *we need general purpose forces more than nuclear weapons*. Nuclear weapons are designed to deter, by threatening punishment after the fact. They cannot manage crises or win battles, for their use is seldom credible since they invite counter-use. Deterrence of a nuclear attack is vital, but at the moment we are much more capable of that than of undertaking other essential military tasks.

Everyone agrees on the deficiency of our general purpose forces. But there are those in power who believe that our strategic nuclear arsenal is too weak. To them, the "window of vulnerability" is the most pressing and urgent problem we face. As I will make clear in Chapter IV, I do not share this judgment. Instead, I believe that the most likely way we will confront the awful specter of nuclear war is through a failure or weakness of our conventional force response.

If such forces can be defeated during a crisis, we will have no choice except to surrender or to escalate to the use of nuclear weapons. This dilemma will be just as obvious to Soviet planners as it is to us, and it could severely tempt them to launch a pre-emptive nuclear strike after conventional forces have become engaged. It is this, rather than a "bolt-from-the-blue" attack on the United States, which I believe is the most likely way that nuclear deterrence could fail. So an investment in conventional forces will bolster deterrence as well as provide us with a needed ability to manage potential crises. The gap in our general purpose forces represents our *real* "window of vulnerability," and it needs our attention far more urgently than a theoretical weakness of our awesome strategic nuclear arsenal.

Second, and following from the above, it is clear that our security policy must include as a central tenet the need for the *control and reduction of weaponry, both nuclear and non-nuclear*. Arms control is not an alternative to defense, it is a vital component of it. It serves the same goal as our defense policy: the reduction of the likelihood of war.

"Arms control" is a broad term which has typically encompassed some or all of three goals: "arms race stability" — a reduction in the rate at which arms are built; "crisis stability" — a decrease in the possible incentives to resort to force; and "damage limitation" — a decrease in the effects of war if deterrence should ever fail.

In some respects, these goals can be contradictory, a problem which has resulted far too often in arms control agreements which ulimately seem to backfire. For instance, many people believe that crisis stability is most assured when each nation has the highest possible confidence that its nuclear weapons are invulnerable. Thus, the SALT I Treaty actually contained incentives to build more ballistic missile submarines since these are the most survivable strategic nuclear weapons. As a result of this, and of the failure of the Treaty to reduce other weapons, the net effect of SALT I was a substantial increase in the numbers of warheads in both the Soviet and the American arsenals. Similarly, had the SALT II Treaty been submitted by President Carter to the Senate for ratification, debate would have focused on the fact that the Treaty would have permitted an actual increase in the number and lethality of nuclear warheads.

Obviously, it is possible in arms control as in any other endeavor to let the best become the enemy of the good, and to refuse an agreement which makes some progress in the utopian hope that absolute disarmament can be brought about immediately. This would be foolish. But it is just as foolish to give up early and to forget that the process of negotiations is a means by which to move, however, painstakingly, toward reductions.

What this suggests is that the actual process of ongoing arms control negotiations is in itself a valuable contribution to our national security, at the minimum because it results in the exchange of information. Just as important, an arms agreement which results from these negotiations can be to the mutual advantage of the Soviets and the United States. Some people believe that if an agreement benefits one country it must inevitably harm the other. In the area of nuclear weapons, this is not the case, assuming that an agreement is prudently written. *No* country would benefit from a nuclear war, however "limited" it might be.

A third theme which will appear throughout this book is that *military personnel are more important than military hardware*. The military is a human institution, not just a collection of equipment. The ultimate weapon is the individual soldier, and nothing else. As equipment becomes more and more sophisticated, this reality becomes even more important, for it takes years of training to master modern military skills. And ultimately, it is the courage and dedication of the people in our military which will give us the margin of superiority we need.

This means that we must devote our attention to the salary and benefits we pay our military and to their training, morale and discipline. Before the pay reforms of the past couple of years, a petty officer on the U.S.S. *Nimitz*, one of our most powerful aircraft carriers, worked an average of 120 hours a week for less money than a cashier at a McDonald's restaurant. Just as bad, our personnel policies often seem designed to eliminate rather than promote *esprit de corps*.

In short, it will do us no good to pour extra billions into new airplanes, tanks, ships and rifles if we do not recruit, train and retain the people needed to man them. If we face a trade-off between people programs and hardware programs, we are wiser to invest in the former.

Fourth, we need *readiness more than we need an expansion or across-the-board modernization of our military*. Forces which are on the drawing board or in an assembly line provide no real power in the here and now. Equally, forces which are impressive when fully fueled, armed, and supplied but which in fact lack funds to buy these basics are only so much metal. Let's bring what we have up to snuff before diverting billions into new equipment which won't be in the field for years to come.

Not long ago, the Army was forced to reduce basic training from eight weeks to seven because of funding shortages, and to cut back on rifle training because there wasn't enough ammunition. They have begun to restore training, but already people are calling for a cutback to the old levels in order to free up funds for other purposes. Such an option would be a mistake.

When our tactical air forces annually lose more planes to training accidents and ordinary retirement than they are able to purchase, it is worth accelerating the purchase of planes in order to add new formations to our tables or organization and equipment? I think not. I also doubt the wisdom of spending billions on new models of aircraft, which will be more expensive, but little more capable than those they replace. I would rather see a better funding balance aimed at beefing up our existing squadrons and wings of aircraft than a tilt toward modernization or expansion.

Fifth, we should stress *combat reliability more than technological elegance.* The environment in which combat takes place is very demanding. Mud, dust, rain, snow, and heat all take their toll of men and weapons. So do accidents and clumsiness. Weapons that look great in laboratories often don't prove out in the field. A gun that doesn't fire because it has developed a jam thanks to over-designed components kills only its owner, regardless of how lethal it looks in tests.

In large measure, this issue has been exaggerated or misunderstood in recent analyses. A call for ruggedness is not a call for "cheap and simple" weapons. The recent superb combat performance of American weapons in the Middle East shows that we cannot afford to surrender our technological ingenuity for the sake of simplicity. A spear, after all, is assuredly more simple and rugged than a rifle, but it cannot stand up on a modern battlefield. Just as important, a singular devotion to the idea that we should build more weapons rather than more sophisticated weapons overlooks the fact that we would need more people to man them, which would put more Americans into combat.

But by the same token, we cannot afford to hold weaponry from the troops in the field simply in order to squeeze the last possible ounce of theoretical performance from it. Moreover, we must recognize that modern weapons are actually complex systems, and that an attempt to press the state of the art in each and every sub-system simultaneously can lead to unanticipated problems. Sub-systems are interdependent, and a failure in any one can affect all the others. If that failure is accounted for by a redesign, it will often be necessary to redesign every other sub-system in turn. Instead of looking for revolutionary advances in each new generation of weaponry, we should seek instead more predictable evolutionary advances, perhaps by focusing on improving only one sub-system rather than the entire package.

Finally, we must remember that as a maritime nation, we need to *emphasize mobility more than static defenses*. Our resources must promote our natural strengths and our national interests: free and secure lines of communication with our allies overseas.

An increase in our military power will do us no good if that power can't be delivered where it is needed. If we cannot respond to a crisis by having the potential to appear on the scene, we will not be able to manage that crisis except through bluster and bravado. An island nation can't afford a Navy of so few ships, and our trade links as well as our military security will be jeopardized without a strong Navy.

2 The Making of U.S. Defense Policy

"We must understand the environment in which policy is actually made before we begin to evaluate the claims and counterclaims surrounding any given controversy."

In an ideal world, policy would be made by strict logic. First, our interests would be assessed. Second, our strengths and weaknesses would be tabulated. Third, a policy would be developed which matches our force posture to our interests.

To a large extent, of course, this kind of planning does occur — perhaps more than most people realize. Organs of the government like the National Security Council or the Office of the Secretary of Defense spend much time planning and refining our global strategy.

But this is not the whole story, any more than it would be if we were looking at a more familiar bureaucracy like the Health and Human Services Department. Other factors can and do affect policy. The reality of defense policy-making is that it occurs in the world of bureaucracy, and — as we have found out elsewhere — bureaucracies frequently do things their own ways and for their own reasons. We should not expect our security establishment to be any different. In fact, by its nature and by tradition, it may be the epitome of bureaucracy. So let us try to understand just how our defense policy is actually made, not how it should be made.

A. *The Office of the Secretary of Defense (OSD)*

Despite the myths of liberal critics and the caricature of fat generals plotting misadventures, it is the civilian establishment rather than the uniformed military which tends to set our defense policy, make our commitments, and administer our day-to-day affairs in war and peace.

Our political system is founded to an unprecedented degree on explicit civilian controls over the military. If anything, civilian controls have increased rather than decreased in the last thirty years. This is nowhere better represented than in the growth of the Office of the Secretary of Defense (OSD).

Until 1947, the military establishment was represented in the President's Cabinet by a Secretary of War, who oversaw the Army, and a Secretary of the Navy, who oversaw the Navy and Marine Corps. With the passage of the National Security Act of 1947, however, we created an altogether new organization — the Department of Defense, headed by a Secretary of Defense. We retained civilian positions for the Secretary of the Army and the Secretary of the Navy and we added a new slot for the Secretary of the Air Force when that service was formally established. But the real power shifted from the service secretaries to the Secretary of Defense and his staff.

That office has grown considerably since 1947. At the moment, the Secretary of Defense is assisted by a Deputy Secretary, two Under-Secretaries, and a large number of Assistant Secretaries and Office Directors. Each of these people, in turn, is assisted by deputies and staffs. In other words, Caspar Weinberger, the current Secretary of Defense, runs a huge civilian bureaucracy in addition to the huge military bureaucracy headed by the three service secretaries and the Joint Chiefs of Staff.

While the military services retain the right to initiate their budget requests each year, it is the centralized civilian leadership which reviews and reduces or increases those requests. It is the staff in OSD which will push a favored weapons system, cancel a plan which does not accord with the preferences of the moment, and — most important —

write a large part of the policy governing the use of American forces.

This trend toward greater and greater centralization is both understandable and to a large extent useful. But it is not without problems. Particularly when political appointees at the top of the bureaucracy come and go every few years, the professional bureaucrats who are lifetime employees of the Defense Department gain an astonishing degree of power — including the power to subtly disobey or ignore directives handed down from above.

Just as important, however, the more complex an organization, the more difficult it is to run strictly from the top. It is humanly impossible to know everything about each of the several thousand line-items contained in an annual budget request. It is asking too much to expect a few people to know all the refinements of strategic nuclear theory, naval strategy, ground warfare tactics or airlift plans.

Complexity, in other words, demands expertise in a wide variety of areas, and no one person or no group of a few people can possibly have that much expertise. One answer to the dilemma is therefore to delegate responsibility. But when power and responsibility are delegated, some measure of control is lost, a concern which everyone must share when running a huge organization with a long memory and a set of ingrained preferences. On the other hand, if expertise is gained by piling more people into the top positions — by further centralizing — an organization can become strangled in its own paperwork, and incapable of making rapid decisions.

This is the essence of bureaucracy. The last twenty years are illustrative.

Secretary of Defense McNamara, who served in the Johnson and Kennedy years, sought to centralize as much decision-making as possible in his staff. The result was that it became difficult for military commanders to make normal decisions without first checking through the chain of command. Secretary of Defense Laird, who served from 1968–1972, provided a degree of decentralization, which was then reversed in the Carter years by Secretary Brown.

The real issue in decentralization is control of the day-to-day operations of the military. Standard military doctrine emphasizes that the commander on the scene will know far more about problems faced than anybody else, regardless of rank or position. There is therefore a strong prejudice in favor of letting the man on the spot make tactical decisions. Yet, during the Vietnam war, centralization had reached the point where minute tactical decisions — such as the placement of a patrol or the site of an attack — were made out of Saigon, Pearl Harbor or Washington, and not on the scene. The result was often tactical paralysis.

In an era of nuclear weapons, it is obviously vital that the political authorities in Washington be totally assured that they are in full control of events. We cannot afford to let a company commander make decisions which would risk war. But it is just as vital that the Defense Department — like any other large organization — be given the flexibility needed to adapt to rapidly changing circumstances. There is no clear point at which to balance the demands of centralization and decentralization, so the cyclical pattern will probably continue. As it does, old problems will subside to some degree and new ones arise.

B. *Intelligence*

A very small, but especially important part of the defense budget is the budget for foreign intelligence activities. The small amount of money that is used to run our intelligence agencies is buried in the defense budget so that the precise size of these programs will remain secret.

The funds spent on intelligence are truly worth their weight in gold. Intelligence provides policymakers with the lead time that enables them to take effective action at far less cost than would otherwise be the case. One good example is intelligence on the numbers and characteristics of enemy weapons. Accurate intelligence on the capabilities of foreign tanks, radars, or the like, insures against our building weapons that would fail to achieve their missions in combat. Millions of dollars in defense procurement costs are routinely saved through the use of such intelligence.

Much more than dollars are saved by making sure that our armed forces have the right weapons when they need them. Lives are saved as well.

Intelligence is also a crucial element in crisis monitoring, following both public and secret developments around the world that affect U.S. interests. Our ability to know precisely what is going on in Central America, Chad, Lebanon, and other hot-spots is what enables the President to take timely action. This ability to act before a situation has gotten out of hand is a clear lifesaver and money-saver, even though it is hard to specify how much has been saved.

Intelligence also saves defense money when it leads to arms control agreements. Such agreements will rarely be in our interest unless we can monitor Soviet compliance with them, and monitoring is almost entirely dependent upon our intelligence capabilities. Arms control agreements can save money by giving military planners confidence that Soviet force levels, deployments, or weapons characteristics will be limited in certain ways (at least in peacetime), thus allowing us to plan our own force posture for a world in which those limits are generally observed. A verifiable ban on anti-satellite weapons, for example, might enable defense planners to put less funds into such systems; to put less funds into defensive measures for some of our own satellites; and to plan our peacetime (and perhaps even our wartime) forces around the assumption that certain satellite functions will be performed without interference.

In some cases, intelligence may well enable us to avoid a war. Wars often result from miscalculations of what our adversaries will do; if we have a good sense of their capabilities and intentions, we can choose policies and actions that will achieve our goals with less risk of war. American wars have also frequently come about in defense of allies. To the extent that we can understand the threats to those allies in their early stages, we may well be able to help them successfully with measures that would be insufficient later on, if the situation were allowed to continue. So the savings that result from intelligence cannot be measured in procurement costs alone; they must be measured in the costs of fruitless policies and military actions that might well be our fate if intelligence fails.

Unfortunately, a good intelligence capability is getting more expensive to maintain. This is due in large part, although not completely, to the increasing technological sophistication of intelligence collection and analysis. Our satellites and other technical collection systems are at the cutting edge of modern technology, and such innovation is always expensive. Both the number of countries to be watched and the sophistication of their systems are constantly increasing, putting ever more demands on U.S. intelligence capabilities. The computer and communications systems that allow us to quickly receive, analyze, and disseminate intelligence information to policymakers and military commanders also add to the increased cost of intelligence.

Classical espionage remains an important part of our intelligence system, and this is a relatively inexpensive pursuit. But even espionage is not cheap, especially with the vastly increased demand for in-depth information about more than one hundred countries. Highly qualified intelligence officers are persons who could get good jobs in business or elsewhere, and the decline in American foreign-language competence makes it increasingly difficult and expensive to hire (or train) the people needed for espionage work. The same is true for counterintelligence specialists, who are essential to the task of protecting the very secrets that the rest of the intelligence system is gathering.

Intelligence analysis is also becoming more expensive, especially in technical areas where computer-assisted analysis is essential. The real price of analysis, however, is intellectual and political rather than monetary. Analysts tell us of information that contradicts our preconceptions, or warn us that prized policies are unlikely to succeed. All too often, in the current administration as well as in the past, the reaction has been either to "kill the messenger who bears bad news" or to tell the messenger what to say. We cannot afford to continue this way. We must learn to accept the importance of unpleasant facts or estimates. Our policymakers must learn that the purpose of intelligence is not to provide juicy tidbits to leak or arguments to release in white papers, but rather to give policymakers the best possible estimates of foreign capabilities and intentions.

Intelligence, then, is an increasingly expensive endeavor. Its value is so great, however, both in dollar savings and in policy successes, that it would be penny wise and pound foolish to cut back or ignore this critical capability.

The Reagan Administration has basically accepted the need for good intelligence. The intelligence budget has risen at a faster rate than has the defense budget as a whole since President Reagan came into office. But the defense budget is entering a period of tighter budgets, and there will be pressures to hold the lid on intelligence as well. There is always a need for budgetary discipline, and the Senate and House Intelligence Committee work hard to enforce that discipline on the CIA and other intelligence agencies. It would be dangerous, however, to treat intelligence just like any other defense program. If we fail to fund useful intelligence programs, we are almost sure to spend more money, down the line, on weapons or wars that might have been avoided if we had had all the intelligence information that we needed.

Part of the problem is that the congressional budget process, particularly in the Senate, forces the intelligence budget to compete directly with Department of Defense weapons system programs. It makes sense for the President to treat intelligence and defense as a joint budget element, for the savings that intelligence provides are largely in defense costs. But it is a different situation when intelligence programs must compete in Congress with weapons systems that are supported by big lobbies and home-state industries. We should consider telling the public the level of the overall intelligence budget, which several top intelligence officials have said could be disclosed safely, so that the intelligence budget would no longer have to be buried in the defense budget. Then the congressional debate on intelligence could take place in a less political atmosphere than that of the Armed Services Committees.

The real need, however, is simply for continued presidential commitment to the best intelligence capability that we can maintain. Even if the price of this capability is modest defense cutbacks, that price will be more than repaid in defense savings and in a more effective foreign policy. And if the price of listening to what the intelligence analysts say is changes in policy, that is what intelligence is for: to make sure that U.S. policy is adapted to real conditions around the world.

C. The Joint Chiefs of Staff and the Command System

The Need for Coordination

Under the best of circumstances, it is extremely difficult to coordinate the forces needed for a major military campaign. Amphibious landings, for instance, demand the most elaborate kind of planning to account for such diverse factors as ocean tides, waves on the beach, the condition of soil from the beach inland, terrain variations, likely enemy responses, likely losses, and so forth. The D-Day invasion of Europe in World War II was preceded by years of planning, and even that was not sufficient to account for all the difficulties. (Indeed, the military probably came to rely too much on their highly centralized and complex plans, and to allow too little room for chance.)

If it is difficult to coordinate forces for a long-planned campaign, it is even more difficult to coordinate them for rapid response around the world. And if these challenges are severe, they become nearly insurmountable if each military service has a different way of doing things. As we recognized very early in World War II, we could not permit the Army, the Army Air Corps, and the Navy to each conduct its own war. Instead, we needed to integrate and coordinate the services as much as possible, for we were fighting around the globe and in every conceivable circumstance.

It was for this reason that the service chiefs — the senior officers in each military branch — were brought together informally during World War II to function as the Joint

Chiefs of Staff. At the end of World War II, it was recognized that we needed more, not less, of the kinds of joint planning undertaken by the Chiefs. Consequently, the 1947 National Security Act, which created both a separate Air Force and the Department of Defense, also formally created the Joint Chiefs of Staff (JCS).

The JCS Organization

The JCS organization consists of five senior officers — the Chief of Staff of each of the four military services and a fifth officer who serves as Chairman — backed up by a modest staff which has been limited by law to roughly 400 people. This limitation reflects the belief of Congress in 1947 that German aggression had been caused in part by their custom of creating a large General Staff.

The Joint Chiefs serve several roles. First, they are by law considered to be the principal military advisors to the President. Second, of course, they serve as the chiefs of each of their respective services, running affairs and seeing to service concerns. Third, they meet jointly to plan military operations, coordinate budget requests, and integrate the activities of their services. Finally, they serve as a link in the chain of command from the President through the Secretary of Defense to the various military commands in the field.

These commands are themselves a post-World War II innovation. Since it was recognized that we could no longer afford to let the Army, Navy and Air Force each plan and conduct operations according to their own preferences, the 1947 act and subsequent amendments have largely converted the individual services into supply agencies which support so-called "unified and specified commands." In other words, it is not the function of the Army to plan and conduct ground combat per se. Rather, it is the function of the Army to train the troops and provide the methods needed to help a given theater commander, regardless of service, conduct ground combat operations as he sees fit. In many instances, the theater commander is not an Army officer.

A "unified" command is one which draws upon the forces of two or more military services for service in a given geographic theater or a given mission. A "specified" command is one which draws upon only one military service. By far the vast majority of the major commands are unified, not specified. An example of a unified command is represented by the European Command, headed by the Commander in Chief, Europe (CINCEUR), a four-star Army General. The CINCEUR is responsible for all operations involving American forces which occur in Europe, regardless of whether those forces are drawn from the Marines, the Navy, the Air Force, or the Army. An example of a specified command is the Aerospace Command, formerly called the Air Defense Command, which is responsible for the defense of the airspace over the United States and for such operations in outer space as might occur. This specified command is entirely an Air Force operation.

Inefficiencies in the JCS

On paper, we have a military command structure which appears eminently logical. Unfortunately, the reality doesn't accord with the organization charts and nowhere is this better illustrated than in the conflict of interest which necessarily characterizes the JCS organization.

Basically, we have asked four individuals to simultaneously advocate the views of their own services and subordinate the interests of their own services to the ideal of joint operations. It is impossible to do one without occasionally neglecting the other. That the system is flawed is no reflection on the dedication or integrity of the indivdiuals who have served on the Joint Chiefs. It is the situation which is to blame.

When the Chief of Staff of the Army runs his service, he will naturally do everything he can to ensure that the Army has as much new equipment, as much money for training, as many people, and as much support as possible. If he did not press for such things, he would be a poor service chief. But when he attends the meetings of the Joint Chiefs, he is supposed to be willing to look at the "big picture," and to agree if necessary that perhaps the Army is getting too much money while the Navy needs more.

It is foolish, in other words, for us to expect a person to serve simultaneously as service chief and Joint Chief, yet we have done so for thirty-five years. Moreover, we cannot rely on the position of Chairman to overcome these difficulties, for the Chairman's powers are severely limited. Decisions taken by the Joint Chiefs are required to be unanimous. The Chairman must lead by persuasion, not by command. If he can't obtain consensus, an issue is deadlocked. Again, this is no reflection on the people who have served as Chairman. It is a comment on the laws which regulate the JCS.

Add to these problems several others, and the picture gets worse. For instance, the deliberately limited size of the joint staff which supports the JCS means that the joint planning is very difficult to carry off in reality as opposed to theory. Moreover, there are severe disincentives against service as a member of the joint staff. The young majors and colonels who are assigned to the joint staff know that after a brief tour of duty, they will return to their parent services for the rest of their careers. For many people, particularly those who prefer to serve in the field, a tour in Washington is considered undesirable in the first place. It is even worse, however, if an officer knows that his advocacy of a position which might impair his parent service will be remembered for the rest of his career.

What all of this means is that the Joint Chiefs typically reach decisions by a process familiar to every student of Congress: they "logroll." This means that they agree not to disagree, but instead to support each other regardless of circumstances. The Chiefs found, during the 1950s and early 1960s, that if they publicly disagreed over such things as who would control a given weapon system, they would ultimately lose power to the civilian bureaucracy. For instance, while it might benefit the Chief of Naval Operations to protest to Congress or the Secretary a decision favoring the Air Force, he would soon discover that it was the civilians and not the military who were making military decisions.

By the mid-1960s, therefore, the Joint Chiefs came to realize that they must present a united front to the outside world if they were to retain their prerogatives. Disagreements among the various chiefs can be fierce, but once they are resolved internally — often by resort to the lowest common denominator rather than by purely logical analysis — a united front is presented to the outside world.

One of the best examples of how the Chiefs now operate occurs with what is called the "flimsy-buff-striped-green" process. This refers to the four drafts, each on a different color of paper, through which a decision is put before a final paper emerges. When an issue arises in the Joint Chiefs — for instance, whether the Army or the Air Force will control planes needed for transport — the controversy is "staffed out." Various drafts circulate around the Pentagon, being refined and weakened, until a compromise emerges in the final paper. Typically, the result is to convert an issue from "either-or" terms to "both-and" terms. In other words, the issue is no longer whether it will be either the Air Force or the Army which gets a new transport plane. Instead, both the Air Force and the Army will get one. While this hardly promises tight efficiency, it does preserve the unity of the Joint Chiefs.

How do we get around these problems? The answer most assuredly does *not* lie in the shifting still more responsibilities to the civilians in the Office of the Secretary of Defense. For one thing, this would add still another layer of complex bureaucracy to an organization already staggering under too heavy a load. For another, it would deprive us of the professional insights of people who have invested thirty or more years in a demanding area.

The answer lies instead in reforming the Joint Chiefs, by strengthening the power of the Chairman; by increasing the incentives for long-term service on the joint staff; by letting the Vice-Chiefs of each service take on more of the parochial responsibilities now held by the Chiefs; or by some combination of these and other possibilities. Currently, the Armed Services Committees in the House and the Senate are paying considerable attention to this issue, largely because General David Jones, the Chairman of the JCS from 1978–1982, has publicly spoken about the need for reform.

D. The Military Services

As should be clear from the discussion thus far, the military services remain enormously important in shaping the views of people in the military. Although the services are nominally supposed to be simple suppliers of goods and services to the unified and specified commanders, the fact is that they remain the locus of most activity in the national security establishment.

Each of our four military services — the Army, Navy, Marine Corps, and Air Force — engenders unique traditions, procedures, and capabilities. Career personnel in each branch are naturally going to see things differently from personnel in other branches.

A Case Study in Service Politics

To illustrate, let's follow the course of development of our newest service, the Air Force. The early advocates of strategic air power, such as Billy Mitchell, Carl Spaatz, "Hap" Arnold, Jimmy Doolittle, and others continue to profoundly affect the Air Force even though they served nearly 50 years ago. It was people like Billy Mitchell who sought a way to return decisiveness to the battlefield after seeing the bloody and fruitless trench warfare of World War I, and who seized on the airplane as an answer. As more thought was devoted to the subject, the air power theorists became convinced that war could be won quickly — and therefore with far fewer ultimate casualties — if the majority of combat operations were dedicated simply to bombing such economic assets as factories, railyards, and so forth.

Because the air power theorists were passionately trying to advance a view which they believed would save lives and prevent the loss of a war, they could hardly be expected to be objective. From the outset, they felt that the best way to ensure that their views would have a chance to survive would be by creating a separate Air Force organized largely around the mission of strategic bombardment. This meant that as early as the 1930s, when there was no "Air Force" but instead only a branch in the Army, the air power advocates were pressing for as much independence as possible. It also meant that the air power advocates tended to denigrate and retard any development which did not directly contribute to strategic bombardment.

For instance, although it was recognized that aircraft could usefully support ground troops by strafing and dropping bombs on enemy troops, the air power advocates tended only to pay lip service to this idea and to devote the bulk of their resources to long-range bombers and the fighters needed to protect them. (Even fighters were a concession, for at first the advocates believed that "the bomber will always get through" unsupported.)

Obviously, Army officers were not excited about the views of the air power advocates. An emphasis on strategic bombardment would, in the view of most Army officers, overlook the fact that traditional doctrine holds that wars are won on the ground. Moreover, at a less theoretical level, Army commanders desperately wanted to ensure that their troops would get the kind of support needed to win battles. This meant that they preferred to see the airplane as a form of mobile artillery, available at an instant's notice to a hard-pressed infantry officer who needed help. They did not want to see pilots chasing off to a target miles away, particularly when few Army officers could see the relevance — or the morality — in killing civilians in order to somehow shorten a war.

From the outset, therefore, the stage was set for a battle between the Air Force and the Army. To this day, that battle continues, although the past few years have seen some substantial elements of common sense restored to the situation.

Long after World War II, and long after Billy Mitchell had died, the Air Force, which had achieved its desired independence in 1947, was still emphasizing strategic bombardment as its primary mission. Even though Air Force studies in World War II had conclusively demonstrated that the results of the strategic bombing campaign were mixed at best and might actually have prolonged the war at worst, the Air Force still felt that this approach was vital. Indeed, the nuclear bomb was seen as a way simply to compensate for the earlier failures of strategic bombardment, and much of our strategic nuclear theory is nothing more than the current version of the air power concepts laid out by Billy Mitchell and his heirs.

Throughout the 1950s and 1960s, Air Force careers were dominantly organized around the Strategic Air Command. The Tactical Air Command, with responsibility for such things as close support of Army troops, spent more time trying to fly its own nuclear missions than supporting Army forces. The Military Airlift Command, which was responsible for getting needed material to the battlefield quickly, was grossly underfunded by the Air Force, and spent as much time ferrying VIPs around as supporting other forces. Even tactical fighters were designed more for nuclear bombardment missions — or for dogfighting in order to clear the skies of enemy planes — than for close support.

The Army reacted to this kind of activity by trying to create its own Air Force. Air Force officers, of course, were reluctant to see anything which threatened their control over air power doctrine, so they protested bitterly every time the Army built a new plane and trained a new pilot. The result of this continuing feud was a remarkable series of agreements, beginning at a quiet meeting in Key West, Florida in the 1940s, which detailed exactly what kinds of aircraft the Army could and could not own. By the mid-1960s, the Army voluntarily gave up a number of its fixed-wing transport planes in order to get full control over its huge fleet of helicopters, for it was through the use of helicopters that the Army hoped to compensate for what it saw as Air Force neglect of the close support mission.

Happily, the Air Force and the Army began to come to a mutual understanding in the 1970s, largely as a result of experience in the Vietnam War. Significantly, it was General David Jones of the Air Force — later to serve as Chairman of the Joint Chiefs — who began to emphasize the importance of the Tactical Air Command within the Air

Force. Although there remain — and will continue to remain — strong differences of opinion between Air Force and Army officers over the proper role of the airplane in modern war, the worst of the times seem to be behind us.

The point of this extended discussion is to illustrate an important theme: The military services represent uniquely different viewpoints, and these viewpoints often collide. The result is a pattern of bureaucratic politics which has its counterparts throughout the entire government.

Disputes Over Roles and Missions

The clash of views among the military services does not derive from stupidity or venal motives. The people in our military will press a viewpoint because they believe that it is in our nation's best interest. We should not fault our officers for believing deeply and passionately in the merits of their services. The reason we have such a fine military is because the people in it care, and we should hope for no less. In every area of life, it is those who care who are willing to take the risks who score the greatest achievements. But, just as no one viewpoint about politics is invariably correct, so too no one viewpoint about military operations is invariably correct. And, just as a political clash can often produce deadlock rather than the "right" decision, so too competition among the military services over budgets and missions can result occasionally in unfortunate outcomes.

So in evaluating the efficiency of competition in the defense marketplace I find it suffers from three important bureaucratic maladies: First, when the military services compete for jurisdiction over a mission or a weapon, it is often the case that we wind up with enormous duplication of effort. As I will discuss at length later, we actually have four "air forces," not one, for the Army, Navy and the Marine Corps all devote massive amounts of money to aircraft. Equally, throughout the 1950s, when some civilian strategists believed that all future war would involve nuclear weapons, we wound up with multiple programs aimed at producing the same nuclear weapons in order to "get in on" the current fad — and the current source of money.

Second, just as some areas suffer from duplication, so too others suffer from neglect. As a nation, we need an ability to transport our forces overseas promptly and efficiently. This has been a national security need of the first order for years. Yet neither the Air Force nor the Navy has ever paid much attention to it despite the fact that each has jurisdiction. Transportation has been seen as a dull area, insufficiently "military" to excite the passions and attract the money of the military. So the lesson is that when our military services spend time competing with each other, something important always falls through the cracks.

Finally, watch for factional politics to be duplicated within the services as well. For instance, the Navy has long been comprised of three distinct branches or "unions" as they are called by former Chief of Naval Operations Admiral Elmo Zumwalt. These unions, the surface fleet, the submarine fleet, and the aircraft carrier pilots, spend as much time disputing each other over missions, weapons and doctrine as they do arguing with the other services. The result has often been that important naval missions are not pursued to the degree necessary.

Neglect of Missions

Now let's look at how a vital area of defense is perenially neglected by the services and the Congress alike. That area is force readiness. It is a composite of such things as spare parts, training manuals, lubricants, and the reliability or lack of reliability in our weapons systems. The unfortunate fact is that too many people in the military and in Congress would prefer to spend dollars on new and highly visible things like weapons rather than on prosaic but vital things like cotter pins for the wheels of trucks. But a military force which cannot sustain itself in combat because of high breakdown rates is no force at all. Logistics is a critical area of national security, an observation captured in Napoleon's famous statement that "an army crawls on its stomach." We all recall the childhood verse that begins "For want of a nail, the shoe was lost; for want of a shoe the horse was lost . . ." The situation is much the same today.

Much of the reluctance to fund so-called "operations and maintenance" accounts derives from the belief of many military people that it is better to get weapons now and hope for support later. This kind of "mobilization mentality" — the belief that we should hold the line with a few good forces until the country mobilizes — served us well in World War II. And it is the excuse promoted by military program managers and Members of Congress for avoiding adequate operations and maintenance funding. The program managers prefer to see scarce dollars directed toward their favored weapons systems, and not toward other programs. Members of Congress recognize that it takes many years to build a weapon system, meaning that funds set aside for that purpose are not spent immediately, whereas money appropriated to operations and maintenance is money which is largely spent as soon as it is authorized. So Congress always robs the "Peter" of force readiness in order to pay or "paper" the "Paul" of a new weapons system.

The effects of this kind of policy were dramatized in the late 1970s when we heard increasingly of aircraft squadrons grounded for lack of spare parts, curtailments of basic training for lack of ammunition, increased accident rates because of improper maintenance, decreased naval steaming time because of shortages of fuel. As Under Secretary of Defense Fred Ikle has noted, "we had a hollow army," a term first popularized by Army Chief of Staff General Edward Meyer.

Congress reacted predictably. It created oversight subcommittees specifically charged with boosting funds for operations and maintenance. Thanks principally to the integrity of people like General Meyer, the military has worked hard to increase funding for operations and maintenance in much the fashion I outlined in my original White Paper. Senior commanders realize that our forces have less than a month's worth of spare parts and ammunition.

But, we are still planning to spend nearly 40 percent of our defense budget on the procurement of new weapons. This reflects the administration's strong belief that our forces need modernization. And as the public demand to slow this new growth in defense spending during a recession affects administration defense proposals, operations and maintenance will suffer. If the President is to get his MX, and his binary chemical weapons, and the American taxpayer gets a cutback to five percent real growth in defense spending, the G.I. and the sailor will take a cut in fighting capability. This makes for crafty budgetary politics, but it is terribly unsound security policy. As the conflicts in the Falklands and in Lebanon have reminded us once again, small forces can fight and win provided they have the right kind of training, morale, and logistical support. In 1940, the world was shocked by the rapid collapse of the French army, for it was universally considered the biggest and strongest force in Europe. But it suffered from poor leadership, poor training, and an over-emphasis on parade-ground strength rather than battlefield staying power. We can't risk repeating that mistake.

E. Congress and Defense Policy

Obviously, our national security policy is not made by the military services and the civilian hierarchy alone. For better or worse, Congress plays a large role in both the overall setting of policy goals and in the day-to-day administration of the agencies and services which carry out policy. Too frequently, the tendency — among members of Congress as well as among the public — is to blame the military services or the Department of Defense for problems which are uniquely Congressional in origin.

If the role of Congress in making policy is to be understood, several points about Congress itself have to be emphasized.

Coalition Politics

First, it is important to understand that Congressional leadership finds it increasingly difficult to lead. At its heart, Congress is not so much an organization — with lines of communication and authority — as it is a loose confederation of 535 special interest organizations. This has always been the case to some extent, of course, but the days of leadership based on party discipline, seniority, Presidential favor, or some other sanction are gone, probably forever.

What this means is that it is exceptionally difficult for Congress to come to agreement on a comprehensive policy, except in the most general terms. While all persons can agree that we should have "a sound defense" with "fiscal discipline," the fact is that these terms are simply platitudes. They need to be defined in detail, and it is difficult to get two people, not to mention 435 Representatives and 100 Senators, to do this. Opinions, expertise, and interests vary too much to foster immediate agreement. Instead, details must be worked out painfully, often at substantial costs in time and coherence.

Committee Politics

Second, it is important to understand the degree to which even the Congressional experts on the Armed Services Committees are caught up in this kind of problem. It tends to be an unstated rule that the Armed Services Committees will press for unanimity when they make their recommendations to the full Senate and House. The desire for unanimity often imposes choices which are not necessarily the best. And, unlike other authorizing committees, colleagues who are not members of Armed Services are deprived on the floor of the leadership of those who "lost" in committee.

On the other hand, as power has become diffused throughout the entire Congress rather than concentrated in the hands of a few senior people, the Committees often find their recommendations ignored. This can occasionally balance a recommendation which is sound in theory but politically unworkable. Just as often, however, it can lead to unfortunate politics. Recently, for instance, we have seen a deadlock over crucial and sensitive issues such as U.S. troop levels in Europe because the Appropriations Committee has tried to "make policy" rather than raise money.

Indecision and Tardiness

Third, Congress fails to adhere to its own schedules, even though those schedules have been adjusted in recent years to provide more time for sound decision-making. At its heart, the Congressional policy-making process is defined by three cycles of activity. The first cycle involves passage of a budget resolution designed to set spending guidelines for the upcoming year. Too often, the first budget resolution is only a vague statement of priorities. It lacks teeth. Moreover, unless Congress specifically orders itself to stay within the guidelines of the budget resolution, the spending ceilings outlined in the budget resolution are observed more in the breach than in reality.

The second policy-making cycle concerns "authorizations." The authorizations process is the means by which Congress sets out general policy. It creates the legal authority for various agencies, including the Defense Department, to undertake contracts, initiate policies, meet deadlines, and so forth. When one reads in the newspaper, for instance, that the Navy has been authorized to build twenty new warships, that reflects the actions of Congress in the authorizations cycle. Each year, during passage of the Armed Services Authorizations Act, Congress examines the recommendations of the Armed Services Committees and makes such changes as it wishes. In most instances, the authorizations bill obligates the government to long-term plans. In essence, passage of the authorizations bill is like opening a checking account at a bank and depositing a given amount of money, with strings attached to govern how the money can and cannot be spent. So the idea is that after setting overall priorities with the budget process — so much for health, so much for Social Security, so much for defense — Congress then looks in detail at each area in the authorizations process and sets aside the money to do each of the many things needed to meet goals in a given area.

This brings us to the final policy cycle — appropriations. It is through the appropriations process that Congress actually writes the checks against the accounts it has opened. In other words, having decided that our defense policy should contain money for salaries, for new weapons, for housing, and so forth, Congress then actually spends the money needed to meet its obligations. Sometimes, the money is paid all at once. Other times, it represents the first installment on a long-term program such as ship-building.

If policy worked the way it is supposed to, Congress would act like an efficient household manager. It would set its priorities with the budget process, make its specific plans with the authorizations process, and spend its money with the appropriations process. Moreover, it would do all of these things in a timely way. Unfortunately, these things happen only seldom, if ever.

In the first place, Congress tends to use each cycle as a chance to reopen issues which were settled earlier. Rather than proceeding in a systematic manner, Congress tends to go back to square one whenever it has the chance. It always did this in election years — for political purposes; now that the election cycle never ends, it is a permanent problem. The result is considerable confusion for the people in the Defense Department who are trying to make long-range plans. A second result, of course, is delay.

In addition, Congress too often resorts to a monetary sleight of hand in an attempt to do several things at once. This is most obvious when it comes to the authorizations and appropriations bills. It is commonplace for Congress to authorize a given program and then fail to spend enough money to make that program run efficiently. For instance, Congress frequently authorizes the purchase of a large number of aircraft over a five year period. Later, during the appropriations bill, it fails to spend enough money to purchase those aircraft efficiently and on time. It does so because it wants to avoid the up-front costs of meeting today's obligations today. What this means, of course, is that manufacturers cannot produce aircraft at the most efficient rate, which drives up costs. Moreover, since the length of a program is stretched out, weapons are deployed far too late. In the interim, Congress is able simultaneously to boast of its commitment to defense by pointing to the authorizations bill and to pride itself on its fiscal responsibility by pointing to the small appropriations bill.

Finally, of course, far too many members of Congress appear more willing to watch out for the interests of their particular constituents than to "provide for the common defense," as called for in the Constitution. It is amusing to see Senators and Representatives who regularly complain of high defense budgets turn around and maneuver to keep alive an obsolete or unneeded weapon system simply because that weapon is made "at home." But if this kind of thing were simply amusing, it would not be noteworthy. It's more than that; it is wasteful and potentially dangerous as well.

There is no question that Congress has and should have a large role in the making of our defense policy. The Constitution is explicit on this point, and we know from bitter experience that a foreign policy which does not enjoy the active support of the populace is doomed to fail.

But Congress has too often given us the worst of all possible outcomes. It too often skirts the larger issues, for instance by failing to debate at length the policy implications of a given weapon system and focusing instead only on its technical characteristics. While it is skirting the larger policy issues where it can use its judgement to best advantage, Congress too often engages in "micro-management" — the tendency to impose on the Defense Department numerous highly detailed requirements. In extreme cases, Congress will even express itself about such technical esoterica as the design of a weapon, despite the fact that few of us have the expertise to make such judgements or the time to study the issues in detail.

In short, if our defense policy is often characterized by inefficiences, waste, or parochialism, much of the blame belongs with Congress and not with the Department of Defense or the military services.

F. Procurement Policies

It seems that nearly every day there is a headline like the recent one which read: "Navy spends $110 for four cent diode." So long as this kind of waste continues, people will be reluctant to see their tax dollars spent on a defense budget which appears designed to defend corporate investors from sound business practice rather than the American public from foreign enemies. Our procurement policies — the means by which we develop and deploy weapons, munitions, foodstuffs, uniforms — need improvement. We are all sick of the stories about massive cost overruns on new weapons, weapons that don't work, systems which are deployed far too late, and the string of buck-passing excuses which go with each new disclosure.

Let's take a look at the three main problems we face in any given procurement: performance gaps, schedule slippages, and cost overruns. Consider, for instance, that it typically takes a decade to design, build, test and deploy a major weapon system. For people who remember the speed with which the United States tooled up for World War II, this seems outrageous. Consider as well how many of our weapons systems have failed to meet the goals built into them. For instance, after spending millions of dollars on a new tactical fighter, the F-111, we were forced to ground it during the Vietnam War because it was more hazardous to pilots than to anybody else. Finally, consider that the real cost, adjusted for inflation, of high performance aircraft increases roughly *ten percent a year*, and that each generation of new aircraft design represents a four-fold increase in real cost over the preceding generation. At this rate of growth, the United States will be able to afford exactly one aircraft per year shortly after the year 2000!

As we try to handle one problem — delays, for instance — we only make the others worse. If we push to get weapons into the field sooner, we either pay more or we risk failures in performance. To some degree, therefore, there are some endemic trade-offs between scheduling, sophistication and cost. How can these be handled?

As I view it, there are four general areas of procurement that merit attention: weapons design, weapons standardization, industrial bottlenecks, and government budgeting practices. Let me briefly touch on each of these.

Weapons Design: Is Simpler Always Better?

The question of weapons design has received considerable attention recently, thanks in part to books like *National Defense* by James Fallows, a former speechwriter for President Carter. But no answers are suggested by characterization of the problem as simply as "quantity-quality tradeoff" or the "culture of procurement," as Fallows calls it.

Let us recognize from the outset that our forces need weaponry which is far more complex than most people imagine. We simply do not live in the era of mass-produced weaponry. Virtually every technology with which we are familiar has become more complex. Automobiles, for instance, now meet auto emissions and fuel economy standards which pose severe design challenges. By the same token, the demands of modern combat are so ferocious that we cannot expect to rely on simplicity for simplicity's sake. On today's battlefield, what can be seen can be hit, and what can be hit can be killed. That is a far cry from World War II.

Moreover, the typical American emphasis on high quality weaponry reflects a number of very traditional and very sound principles. Mass-produced weaponry which is "good enough" tends to demand more manpower to run it. It can often mean more combat fatalities as well. Consider, for instance, that the famed bombing mission against Schweinfurt, Germany, during World War II resulted in the loss of 60 aircraft and 600 American crewmen. The same amount of tonnage dropped by the 291 B-17s on that mission could today be dropped by only six modern fighter-bombers carrying a total of 12 crew members.

High quality technology, in other words, reflects our willingness to help our soldiers survive to the greatest degree possible. It also reflects our ability to put such modern technology as electronics to good use. For those who think that technology doesn't matter in war, remember how many wars have been won by the side with the better weapons. The English yeomanry decisively beat the French nobility at Crecy simply because the lengbow had made knights' armor obsolete. The rifled musket during the American Civil War created massive casualties, far beyond the worst nightmares of any commander. In short, quality matters.

But let us not go so far as to say that only quality matters. Numbers count, too. Although World War II saw the development of many modern "high-quality" items like radar, proximity fuses, guided bombs, and so forth, the fact is that the United States ultimately prevailed in large part because it turned out huge numbers of relatively simple mass-produced weaponry. Just as important, the British mathematician F.I. Lanchester showed as early as World War I that combat power increases as the square of the numbers deployed. In other words, a force which is three times the size of an equally armed force has nine times the power. So numbers can overwhelm quality.

What this suggests, of course, is that we need to strike a balance between quantity and quality; we need a "High-Low" mix of weaponry, with a relatively small number of highly capable weapons backed up by huge numbers of less expensive weapons. That, at least in theory, has been the approach to defense procurement for some years. Unfortunately, reality has not kept pace with theory.

Soviet and American Design Techniques

The Soviets, who currently enjoy massive numerical superiority over us in various categories of weaponry, tend to rely on a design philosophy which stresses simple weaponry capable of being handled by the most ignorant personnel. In the Soviet military, most people do one thing only, and they learn to do it by rote. Weaponry is designed for mass-production in order to emphasize the long-standing Soviet preference for mass. Just as important, such things as sustainability — for instance, the number of days a ship can fight — are often downplayed in favor of shock — the severity of the first blow. When the Soviets modernize their weaponry, they tend to do so incrementally, a piece at a time. Thus, some of their newer tanks have the same wheels and suspension systems as the Soviet tanks of forty years ago. Only the guns and engines might have been upgraded. This makes it easier to continue mass production, to modernize continuously, and to take advantage of interchangeable parts.

In short, Soviet design emphasis tends to reflect a longstanding preference for simple, single-purpose weaponry, redundantly stockpiled, and characterized by a large degree of commonality among sub-systems. This doesn't necessarily make the Soviet approach better. Much of their emphasis derives from the relatively poor state of their industrial base and the lower educational levels and motivation of their personnel. But the approach does mean that the Soviets are able to put huge armies into the field.

By contrast, American weaponry tends to be multipurpose in nature. Our aircraft, for instance, are often built to cover several missions in all kinds of circumstances. This reflects, to some degree, the fact that we are a global power and that we cannot predict just where a given weapon might be needed. But the price for this emphasis is that we can afford to deploy only a few of these very expensive multi-mission weapons. It also means that as complexity increases, the chance for a breakdown also increases, particularly given the extraordinarily challenging environment of combat.

In addition to the multi-mission nature of much of our weaponry, we tend to modernize all at once, in spurts of activity, rather than selectively and incrementally. Most new aircraft, for instance, are designed from the ground up and have few if any parts in common with the older aircraft they replace. In short, our development efforts stress *revolution more than evolution.* Although we have recently begun to emphasize so-called "Pre-Planned Product Improvement," the fact is that we don't typically build austere weapons with the idea that we can add to them later. Instead, we try to do everything at once.

Problems with Radical Designs

This design emphasis poses a number of problems. First, there is too often a tendency on the part of our weapons designers and their military counterparts to press for the last possible ounce of performance in designing a weapon. To get the last two percent, however, we must often pay a price increase of perhaps fifteen percent. Moreover, we often risk compromising the integrity of our overall design when we do this. Too often, the price we pay is not simply monetary; it is measured in terms of things like reliability as well. Again, let me emphasize that "modern" or "high quality" items are not the issue here. In many cases, the newer a technology, the more reliable it is, a point familiar to anybody who has recently purchased a hand-held calculator. The issue, instead, is how far we try to press the state of the art at any given time, and at what cost.

A second problem with the traditional design emphasis is that it often forces us to deal with "unknown-unknowns" rather than "known unknowns." What I mean is that a competent engineer can often anticipate where problems are likely to arise when he is designing something new. He can then expect to monitor his project and watch for the "unknowns" in order to correct them. In such instances, he is dealing with "known unknowns" — with a range of possible errors which is at least predictable and correctable. But when we press too far too fast, we lose that advantage, for we often cannot even guess where problems are likely to crop up. This makes it very difficult to plan for modifications.

A third problem is our gross underestimate of the real costs of a project when initial planning is done. Some people have gone so far as to refer to the design competition process as "bidding and lying contests." When the Defense Department and Congress are told that we can produce a miracle weapon for only a small amount of money, it is easy to justify the expenditure. Later, after contracts have been signed, contract change orders can be and are submitted. Typically, these orders reflect either the discovery of an "unknown-unknown" which needs correction, or, worse, a deliberate decision to make a weapon which was supposed to be austere something more exotic. It's rather like buying a new car. The salesman quotes a base price and then, after the contract is signed, spends his time convincing the buyer that the car would be better if it had chrome-plated wheels or a high-quality stereo. As an aside, let me observe that politicians in America have used this same technique to sell us everything from Medicare to national parks!

Fourth, we too often press the state of the art in a crash development program. The problem is that radical advances in the state of the art take time to come to fruition. Yet the longer the time we spend exploring a new idea, the longer our troops must wait for any weapon, whether radically new or not. Toward the end of the design stage, therefore, there is a strong impetus to speed things up. What results is a pattern known as "concurrency" — the simultaneous production, testing and deployment of a weapon. In other words, rather than spending the time to produce a few prototypes, thoroughly test them, make modifications, and then mass produce the finished product, we often treat the first production model of a weapon as a test model also, making changes in the production line as problems emerge. The result is twofold: performance flaws among the earliest production models, and vastly increased unit costs because of the need to retool a production line halfway through a run.

Finally, as our weapons become more and more sophisticated, they require more sophisticated maintenance. Often, this means that they cannot be serviced near the front lines for anything other than routine problems. Instead, they must be shipped back to a few central depots. This poses potential delays in keeping our weapons on the line during high tempo operations. It also means that if a few depots are destroyed, our force will ultimately wear out without the chance for renewal. In addition, there are simply too many instances of unskilled and untrained people performing maintenance jobs they don't understand. There is a common phrase among electronics technicians — "smoke test." This means that when a mechanic can't diagnose a problem, he pulls out a part and puts in a new one. If the new one smokes, it is obviously not the right part, so it too is thrown away and something else is tried until the problem is "smoked out." While the phrase is meant as a humorous commentary on maintenance problems and should not be taken as a literal description of how maintenance occurs, the fact is that it does touch on an underlying reality.

To summarize our first procurement problem: So long as our design emphasis steers us toward revolutionary rather than evolutionary advances in weaponry, we are likely to face a number of procurement problems. But evolution alone is not a sufficient solution to the difficulties of procurement policy. We must address as well the three other areas I mentioned: standardization, bottlenecks, and pricing.

Standardization and Service Politics

Folks in the military know that "NIH" does not mean National Institute of Health. It means "not invented here." It reflects the strong presumption against using equipment developed for another service or another country. To some extent, this is both understandable and defensible. Each military service, after all, represents a different way of doing things in order to tackle different problems. And a total military force characterized by absolutely uniform weapons systems is probably not a strategically sound concept. If every service flew the same type of airplane, it would mean that once an enemy had figured out how to counter that plane he could eliminate all of our air power. To some degree, in other words, redundancy is a way to prevent accidents from happening. If it is sound policy to put several alternative control systems on a commercial airliner in order to guard against the failure of any one, it is equally sound to field several different weapons systems.

But NIH has been carried to an extreme. One of the more ludicrous examples arises from the late 1950's and early 1960's, when the military services used to design and procure separate kitchen aprons, shoes, underwear, belts, and other such equipment for their personnel. This was ridiculously inefficient, and it was ended under Secretary McNamara.

While it is quite true that an airplane designed for deployment at sea aboard an aircraft carrier needs a beefed-up frame, there is simply no reason why the Navy and the Air

Force can't rely on a common airframe, with modifications as needed. In fact, though, these two services have always refused to cooperate in the development of a common fighter or attack aircraft. It is equally foolish to see the Navy developing a highly sophisticated Trident II missile while the Air Force is developing an equally sophisticated missile, the MX. Assuming we want a heavy missile with ten warheads (and I question this), there is no reason why we couldn't purchase a common missile at a substantial savings.

The issue goes beyond service parochialism, however. So long as our design emphasis is on multi-mission weaponry, particularly aircraft, it is unlikely that we can get two services to agree on a particular design. Single-purpose weaponry, however, can lend itself to common use more readily. For instance, if the Air Force wants to develop a multi-mission plane, it is likely to stress dog-fighting and long-range interdiction as its two primary missions of concern, while the Navy is more likely to stress dog-fighting and close air support. In such a hypothetical case, it is difficult for the two services to agree on a common design. But if both services stressed simply a single mission plane, such as a dog-fighter, it might be easier to come to agreement on engineering principles.

Standardization and International Politics

Just as important as inter-service concerns, however, is international competition. We are a member of the NATO alliance. In the event of a war in Europe, our troops would be fighting along side the troops of several European nations, sharing the lines of communication and often overlapping boundaries. Yet for reasons that have to do primarily with the desire to maintain high employment rates, most member nations of NATO insist on building an entire arsenal of weaponry rather than concentrating on a few items which can be used by the entire alliance.

Obviously, armies and navies will differ from nation to nation in terms of engineering trade-offs. British armored vehicles, for instance, have traditionally reflected a different design emphasis from Scandinavian vehicles. We cannot expect any nation to give up a doctrine simply for the sake of standardized weaponry. But national preferences are carried to absurd and dangerous extremes which cost us all money in peacetime and can cost us victory in war.

In many cases it is impossible for neighboring military units of different nationalities to communicate by radio. The reason is that each nation has insisted on building its own communications gear. If it is impossible to agree on a common radio, it should at least be possible to agree on common frequencies. The same applies for ammunition sizes and other items. The savings in money would be impressive if NATO could engage in more of what is called "rationalization, standardization and inter-operability" (RSI) in its weapons programs. Occasionally, this would mean that an American producer would have to forego a contract bid, but the overall savings would be impressive.

Finally, we could save a good deal of money if we agreed to so simple a thing as the use of commercially-available parts in our weapons systems. Occasionally, a weapon is designed with a deliberate emphasis on off-the-shelf hardware. Too often, however, the assumption is made that every item must be especially designed and produced. While military gear must be extremely rugged, there is no reason why some civilian parts won't suffice, particularly if they are "militarized."

Production Bottlenecks

A third area where our procurement policy fails is in the growth of production bottlenecks. And things are getting worse, not better, despite the growth in available defense dollars.

I recall speaking to a senior executive with a major defense firm shortly after the Congress began to budget far more money for defense. I asked him whether he was prepared to invest in the plant and equipment needed to increase his production. He said that he was not, for he simply could not be sure that the spending surge would last and he couldn't take the huge investment risk involved. Events have proved him right to a large degree.

The point of this story is to illustrate something which hardly anybody understands, and which fewer people believe once it is explained: most business enterprises have pulled out of the defense industry over the past decade because profit rates are simply not competitive with those in other enterprises. The result is that only a relative handful of firms make the bulk of their money in defense. This in itself creates huge bottlenecks, for it means that competition is limited, supplies are short, and more spending simply inflates prices as extra dollars chase a fixed amount of goods.

The defense industrial base has declined markedly, and nowhere more than in the case of subcontractors: the firms which make the castings, forgings, components and spare parts which are put together by a prime contractor to build a major weapon. Plant equipment is old, and often obsolete. Labor costs go up while the pool of workers experienced in defense industries goes down. Materials needed for modern weapons — particularly weapons which press the state of the art — are both scarce and frequently held by foreign cartels. As these kinds of bottlenecks pile up, and as the government perpetuates budgetary instability by shifting its opinions about defense every few years, more and more contractors leave the defense business for other, more profitable enterprises. This further increases bottlenecks.

In short, our defense industrial base is a mess and it is getting worse. The result will likely be more and more inefficiencies, more and more reliance on sole-source contracts rather than competition, and more and more demand for goods which cannot be provided fast enough. Increased defense budgets will not solve the problem. They could make it worse, unless we first begin to address the revitalization of the American industrial base.

Procurement Regulations and Practices

Finally, I should note that government itself, and Congress in particular, bear a large measure of responsibility for the failures of our procurement policies. Aside from their tendency to encourage the kinds of anomalies I have thus far described, the fact is that many of the cost overruns we experience are artificially created by the artful use of numbers.

There is no better example of this than the frequent use of extremely optimistic estimates about inflation by any administration. No President wants to tell the country that he expects inflation to remain high or to increase over time. Aside from the political difficulties this presents, the fact is that inflation is at least in part a matter of investor confidence. Therefore, any President is naturally going to try to paint an optimistic picture about the economy in hopes of creating a self-fulfilling prophecy. The result is that the annual report from the Defense Department, which contains projections about plans for the future and the resources needed to meet them, is always based on wildly optimistic inflation estimates. Consequently, when inflation runs higher than "predicted," costs go up and overruns are reported. Such overruns do not reflect poor management on the part of the military services; they are not "real" overruns. Nonetheless, they sap the strength of our defense policy just as readily as programs which suffer from poor management.

A related problem is the use of hazy or optimistic estimates about the ultimate costs of a weapon which is in development. Obviously, the greater the challenge presented by a weapon design — the more the "unknown unknowns" — the greater the potential for cost growth. We often expect the parent military service or the contractor to fudge on cost estimates in order to make the case to a skeptical Congress that a weapon merits support. However, political authorities have been known to do the same thing, particularly when the weapon in question represents some high political stake. When a President runs for office on a platform promising a given weapon — as the last several Presidents have done — it is not uncommon to find that cost estimates for that weapon are highly optimistic.

A third problem which I have already alluded to concerns the inherent instability of the defense budget cycle. Because of rapid shifts in public opinion concerning defense spending, and because sooner or later everyone becomes concerned about things like the size of the federal deficit, spending plans are roller coasters. Even the Reagan defense budgets are not what they appear to be. The first year or so of the Reagan administration saw discussion about growth rates of ten percent or more in defense spending. After considerable criticism, those planned growth rates have been trimmed back by the administration, and trimmed still further by Congress. Imagine, however, the plight of a defense contractor who undertook long-range research and development on the basis of the early optimism of this administration. Such a contractor would either have to trim back — with a net long-term rise in costs to the Defense Department — or get out of the business entirely. When this fluctuation is compounded by the frequent tendency of Congress to authorize programs for which it fails to appropriate enough money, or by the operations and maintenance/new weapons tradeoff described earlier, the result can be major price increases.

If we are to begin to make progress, we must avoid the quest for a simple panacea like "more competition" or "more accountability," for experience shows that a simplistic approach often backfires. Nonetheless, solutions must be found.

G. Military Manpower Policies

Ultimately, our national security is dependent on the skill and dedication of the men and women in our military. We can tell a lot about the realism of national security policy by examining our military manpower policies.

The first thing to remember, of course, is that the United States has traditionally relied on a career force of volunteers rather than on the draft to keep its armed forces up to strength during peace time. After nearly thirty years of a draft, we returned to an All Volunteer Force in the early 1970s. While this force has had its ups and downs, it is fair to say that at the moment the people in our military services are as well qualified as — or better qualified than — any peacetime military we have ever had, whether during the era of the peacetime draft or not.

Nonetheless, there are a number of problems found in the volunteer force, problems deriving chiefly from the particular policies we have pursued. These problems would not be solved by returning to the draft. Instead, they would be exacerbated. Let me touch on a few examples of how our policies need to be made differently.

Manpower or Machine Power?

First, there is the issue of manpower vs. machine power as policy premise. Countries like China resort to huge mass armies because they are short in basic technologies. Countries like Israel, on the other hand, choose to maintain a relatively small standing professional army, augmented by reserves and militia during time of war, and to capitalize on their inherent technical advantages. In the United States, we have too often acted as though we need to do both. We too often create requirements for personnel slots that aren't needed. Many jobs now performed by several people can be performed by one person and a machine. While the military have begun to move in this direction, too many people continue to look on manpower as an inexhaustible resource. It isn't.

There is another facet to this as well, one which can occasionally contradict what I have just said. That is the increasing degree to which the people in our military services perform service and support functions rather than combat functions. Fewer and fewer people actually engage in combat, while more and more provide an increasing variety of support functions. To some degree, this reflects the increasing use of machinery where muscle power once was used.

But the declining "tooth-to-tail" ratio in the military reflects another trend as well: increasing reliance on things which require more, not less, manpower. In other words, if a number of structural reforms were made in how we view combat — a point I will examine at length later — we might be able to put more people into combat-related jobs without driving up the numbers of total personnel needed.

Both trends — the continuing use of labor-intensive techniques and the growing use of technology which needs a huge support establishment — derive from the belief that manpower is a cheap resource. I suspect that much of this attitude is a relic of our reliance for so many years on the peacetime draft to augment our regular military forces. Attitudes often live on after realities change.

This is more than an esoteric concern, however. The fact is that the available base of manpower in this country is now declining, and will continue to do so for years. The reason, of course, is that the people born in the post-World War II "baby boom" are now approaching middle age. Their younger brothers and sisters or nephews and nieces simply aren't as numerous. So the point is that we can't continue with business as usual, counting on a possible resort to a peacetime draft to make up for manpower shortages. There won't be enough people eligible for a draft to let the military continue its habits. A peacetime draft is therefore not simply something with which I strongly disagree on ethical grounds. It is an impractical answer as well, something which its advocates often overlook.

Career Soldiers or Short-Time Soldiers?

A second manpower issue — and a deeply troubling one — concerns the long-term retention of the people in our career force. During the late 1970's, we experienced what was called a "hemorrhage" of talent as thousands of our best and most experienced people left the military in search of better jobs elsewhere. Too often, the cause was simply the inability of a service member to earn a decent wage.

Some people would argue that we all owe something to this country, and that service personnel should therefore be willing to put up with low wages. After all, it is argued, a draftee in the 1960's earned only $80 per month. Why should people today be any different?

While understandable, this view overlooks a key point. First, we no longer have a draft army. Second, we cannot afford one. Third, as experience in recent conflicts has shown, it is the highly-trained force of long-term careerists which is most likely to win on today's battlefield. The military is a career, not a brief avocation. Fourth and most important, the people in our military services are making substantial sacrifices every day. They are underpaid and always will be.

It is unreasonable to expect that an aircraft mechanic will be expected to work 120 hours a week, move every few years to new and often isolated places, undergo enemy fire, and be compensated at a rate which is often less than what he could earn as a cashier at a fast-food restaurant. Yet, for many years, that is how we approached the area of compensation. In a related vein, we too often let the military suffer from "pay compression" — the tendency to pay our senior officers and NCOs relatively badly in comparison to junior personnel. This was and is degrading, and it provides little incentive to stay in the service since prospects for a meaningful raise decrease over time.

Fortunately, this has come to be recognized as a critical area. Despite the opposition of President Carter, a number of us in Congress repeatedly sought and finally obtained needed pay raises for the men and women in our career military. (In fact, we were treated to the spectacle of Jimmy Carter publicly opposing a pay raise, and later claiming credit for it when the U.S.S. *Nimitz* returned from nearly six months duty in the Persian Gulf.)

Overall, recruiting levels — which were not good a few years ago — have dramatically improved. Partly, of course, this reflects the state of the economy, where insufficient jobs are available for young people. But it also represents a welcome change in attitude toward service to the country. More and more people are enlisting for at least one tour of duty in the military simply because they feel it is the right thing to do. My son Michael, a Marine, is among them. So recruiting rates are not the problem. *Retention* rates are.

I believe that retention is the chief problem facing the service, for it is the professional soldiers who constitute the backbone of our military, and not the new recruits. For every professional who leaves, we must recruit five new people in order to make up for the loss over time. In other words, only one person out of five re-enlists to become a careerist. The draft will not end this. It will not provide us with the experienced and skilled professionals who must continue to be the chief source of our strength.

Fostering Retention

In order to ensure better retention in the future, there are reforms we must attempt. The first is a longer initial enlistment, coupled with a distinct difference in the benefits we pay to long-term enlistees as opposed to short-timers. In other words, we should encourage the notion of a career enlistment from the very first day.

Second, we should alter the system of retirement which encourages people to stay in the military for only 20 years, perhaps by providing modest pension rights *before* 20 years so that those motivated only by money are not tempted to re-enlist. Too often, such people are less interested in service than in personal comfort, and they can become deadwood in terms of our needs. Indeed, the term "old soldier" is typically used in the Army to describe those who would rather shirk than work. Just as importantly, however, we must offer substantially *greater* pension benefits for those who remain beyond 20 years. This will give those who currently have every incentive to leave the service a new incentive to remain. There is simply no reason why our retirement system should assume that a soldier is incapable of performing his job after the age of 40. This is especially true of non-combat soldiers.

Interestingly, a reform of our pension system could save us money as well as improve the quality of our armed forces. Pensions currently consume more than $15 billion annually, and the amount will continue to increase over time. A reform of the pension program along the lines I have suggested could save us, by GAO estimates, anywhere from $1.6 to $2.8 billion annually in 1979 dollars. Clearly, no reform of the pension system should be allowed to affect those who are current retirees or those who enlisted expecting to receive current benefits. But future retirees should be offered more of a choice than we now give them, and the services should consider gaining the double benefit of economic savings and better personnel which would follow from reforms.

Third, we as citizens must begin to show more support for the men and women who serve in the military. There is a moral as well as a material side to compensation, a side which I fear we overlook when we allow our discussions of the military to be shaped solely by market models and labor economists. There will always be a better paying job somewhere, so we cannot count on salaries alone to motivate people to re-enlist. Instead, we must let the people in the military know that we look upon them as more than paid help, that we value their sacrifice and recognize the dignity and honor in serving the flag. We should also take a more active part ourselves. The services can always use short-term enlistees as well as careerists. And, as the ROTC program has demonstrated, a short stint in the military benefits those who serve and the military alike. I strongly believe in ROTC and similar programs, and wish that more people took advantage of them.

So long as we continue to look upon the military as a haven for the indigent or the incompetent, we should not be surprised to find the best people becoming demoralized or leaving the service. There should be no social bar which inhibits the middle class from enlisting in the active military, the Reserves or the National Guard. But I fear that many of us have created one. This is not only snobbish and unjust, it is foolish as well, for it was nearly a century ago that Sir William Francis Butler warned us that:

> The nation that will insist on drawing a line of demarcation between the fighting man and the thinking man is liable to find its thinking done by fools and its fighting done by cowards.

Finally, we can encourage retention — and gain more combat effectiveness — by recognizing that combat leadership skills are at least as important to the military as managerial skills. We have many officers in the service who have been encouraged by the promotion system to look upon the military as a job rather than a calling, and who think in terms of business management rather than leadership. Men are not managed to their deaths in combat, they are led. But too often, we pass over for promotion and force into retirement precisely those people who, while unwelcome at business school reunions or country club luncheons, are superb fighters. While it may not be wise to promote every such person to the highest ranks — managerial skills, after all, are valuable — it may be equally unwise to expect that every officer must be a potential Chief of Staff and to force such persons, as we do, "up or out" of the military.

To summarize, therefore, our military manpower policy should not be premised on economies, even though the total cost of manpower constitutes roughly 50 percent of the defense budget. Savings gained through such things as low pay rates are false economies. Nor should we look on manpower as an inexhaustible resource. Until these attitudes change, we are likely to continue to administer a policy which is superficially intelligent, but which is fraught with problems.

Summary

Our national defense is dependent on the way in which defense policy is made. You won't learn how defense policy is made by reading the annual report of the Secretary of Defense. Like every other activity of government, defense policy is subject to the kinds of pushing and hauling which shape our political system. Sometimes, the result is better policy, as when competition between the military services ensures that important missions are not left uncovered. Other times, the result is bad policy, as the discussion of procurement should demonstrate.

The point is that we must understand the environment in which policy is actually made before we can begin to evaluate the claims and counter-claims surrounding a given controversy. If judgement about what constitutes a needed weapon were simply a matter of toting up the technical merits and demerits, there would be little need for the kinds of prolonged debates which we periodically witness.

But because we are dealing with a moving target, and because so many extraneous factors shape the making of policy, it is difficult to reach a conclusion without first examining all possible sources of controversy.

Like any other activity, defense policy is a human enterprise, subject to the same strengths and weaknesses. It does no dishonor to our military or to our political system to point out some of what goes into shaping the formulation of policy. It does, however, offer some clues to the person asking "how much is enough?"

3 Strategic Nuclear Weapons

"The logical conclusion is that much of the frightening rhetoric about a so-called 'window of vulnerability' is exaggerated."

It is supremely important that all Americans have at least some understanding of defense policy, for it is defense policy which ultimately addresses the gravest issue of our day — nuclear weapons.

It is difficult if not impossible for people to imagine what is involved when we talk about nuclear weapons. The power involved is simply beyond comprehension. To bring the issue home, let us imagine that a single one-megaton bomb was exploded directly over the IDS tower in downtown Minneapolis.

Everything within a three block radius would immediately disappear into a huge crater. My staff members working in the Plymouth Building would be vaporized in a millisecond. People in the Grain Exchange Building would be irradiated, horribly burned and then buried in rubble. The Foshay Tower would be scorched and knocked to the ground. The Metrodome would be burned into a flat layer of cinders. Buildings of every kind would be crushed as easily as you crush a paper cup in your hand.

Most everything would be destroyed or severely damaged as far south as my brother's home near Lake Nokomis, as far east as the University Medical School, as far north as Brooklyn Center, and as far west as Medicine Lake. Half the people at the Glen Lake Sanitorium, Minneapolis-St. Paul International Airport, the State Capitol, Turtle Lake and Coon Rapids would suffer second-degree burns. Within a few minutes, people water-skiing on White Bear Lake would notice radioactive fallout descending on them. And within hours, depending on the winds, residents of Marquette, Michigan, and Madison, Wisconsin, would be forced to either evacuate or face radiation sickness.

This is the result of one weapon dropped on one city. If several cities were attacked simultaneously, the effect would be worse than the sum of the parts, since the Twin Cities could not count on help from other areas. Each of the attacked cities would be left to itself, an island of misery and death.

It is all too easy for some Americans to avoid the subject. Psychologist Robert Lifton reminds us that nuclear weapons are so inconceivably horrible that they make us prone to "psychic numbing." We tend to think of them, if at all, in abstract terms that lose all meaning. This phenomenon makes atrocity possible. Dictators have understood it for years. The Nazis succeeded in committing genocide largely because few people could truly believe, or even comprehend, the mass murder of millions. As Joseph Stalin once remarked, "One death is a tragedy; a thousand deaths is a statistic."

We cannot afford to fall victim to psychic numbing. We cannot afford to ignore the arms race, optimistically believing that nothing will ever happen. Neither can we afford an attitude of blind pessimism that leads us to believe that nuclear war is inevitable. Rather, we must keep our eyes wide open and continue the public discusssion of the issues involved, so that the government and the experts can put together a policy that is workable, secure and supported by the widest spectrum of the public.

The Effects of Nuclear Weapons

For purposes of discussion, let's examine more closely the effects of a one-megaton nuclear weapon, a standard measure of nuclear yield. The energy of a nuclear weapon is released as blast effects, heat and radiation.

Roughly one-half of the energy of a one-megaton weapon released as blast and "overpressure" — abnormally high levels of pressure. The initial shock wave travels outward from the point of impact at the speed of sound. Part of the shock wave is reflected off the surface of the earth. Where the reflected shock wave, which travels faster than sound, overtakes the initial shock wave, they combine to create a "Mach front," crushing, smashing and blowing aside whatever stands in its way. The Mach front produces hurricane-force winds and massive amounts of atmospheric overpressure ranging from a few pounds per square inch to many thousand pounds per square inch near ground zero. It takes only four pounds per square inch of overpressure to collapse most houses.

The blast effects of a single one-megaton warhead would completely destroy all buildings to a distance of five miles. Beyond that, other buildings would be severely damaged.

As horrible as this is, the effects of heat are even worse, despite the fact that only 35 percent of the weapon's energy is released as heat. A "thermal pulse" of intense power — hotter than the sun at its origin — radiates from ground zero for 10 seconds or more out to a distance of 12 miles. The fireball created by this thermal pulse can dig a crater nearly 600 feet deep with a diameter of nearly one-quarter of a mile.

Anybody near the epicenter of the blast would simply disappear. Farther away, others would be instantly burned to death. Still farther away, thousands would suffer third-degree burns. In normal times, if months of treatment were available, many of these victims might survive. But if even one bomb were dropped on one city, there would be more serious burn victims than could be treated by every hospital in the United States. If many cities were attacked, vast numbers of hospitals would disappear, and most skilled medical personnel would be killed or disabled. In short, there would be little hope for burn victims who did not die immediately.

The remaining 15 percent of a nuclear weapon's energy is released as radiation, such as gamma rays, beta rays and penetrating netrons. One-third of this radiation would instantly kill those within two miles of ground zero. (More likely those people would already have been killed by heat and blast.) The balance of the radiation would live on as fallout, poisoning a swath of land which might extend for hundreds of miles, depending on winds and the characteristics of the particular bomb.

But the worst wouldn't be over. Within an hour, the fires started by the thermal pulse, by broken gas mains and by burning debris would begin to fuel one another. Ultimately, depending upon the prevailing winds, there would either be a massive firestorm or a general conflagration. The former would devastate an area of perhaps 200 square miles, sucking the oxygen out of the lungs of the few who may have lived to witness it. The latter would incinerate a larger area, but less thoroughly.

What does this ghastly scenario mean in terms of our nuclear weapons policy? It means that there is no such thing as a "limited" nuclear war. Even if the U.S. were to suffer an attack only on its military bases — the missile silos in North Dakota, Montana and many other sparsely populated areas — civilian deaths from fallout alone would run into the hundreds of thousands. But an attack on American military bases would not be confined to remote missile silos. It would include simultaneous attacks on air bases, command centers, and the port cities where our strategic nuclear submarines are based. Twenty million Americans would die immediately in such an attack; untold millions more would die shortly afterward.

This also means that in today's world, where the United States and the Soviet Union have many thousands of warheads aimed at each other, there is simply no military value in nuclear weapons. They cannot be used to wage the kind of wars that are "won" by one side or the other. The death and desolation that would follow from even a "modest" exchange of nuclear weapons make even the concept of victory meaningless.

Nuclear weapons are good for two things only: deterrence of attack or suicide. They serve only to keep alive the stalemate of nuclear power, a stalemate which has kept the superpowers under tight constraints. The huge risk entailed in even a diplomatic crisis between nuclear-armed states means that diplomats are cautious where once they were bold.

This is the reality. It cannot be wished away by talk of limited war or civil defense. Nor can it be brushed aside, at least for now, with such laudable but currently unobtainable goals as total disarmament. The world would love nothing more than to see every nation lay down its nuclear arms forever. But weapons are not built for their own sake, they are built because of longstanding fears and frictions between nations. Realistically, we can't expect a fundamental change in the international system in the forseeable future. The fundamental differences between the United States and the Soviet Union still exist. We can reduce distrust and conflict between nations, but we can't hope to eliminate it altogether. Obviously, we can't disinvent nuclear weapons. The technology exists; the knowledge is available to any competent graduate student in physics. What, then, can be done?

A Policy of Deterrence

The fundamental and supreme military interest of this nation has been and must always be the deterrence of nuclear war. So long as the Soviet Union has even one nuclear warhead, we must ensure that Russian leaders never feel tempted to launch it. They must be made continually aware that the penalities for such an action would vastly outweigh any possible gain which they might hope to accomplish. They must be deterred, in short, from contemplating a nuclear attack, whether such an attack were to occur "out of the blue" or during a crisis.

There have long been many views about how best to accomplish this deterrence, and to ensure that it remains a permanent fact of life. Ironically, much of what we take to be accepted policy wisdom is based on simple speculation. While deterrence is a concept as old as military force, the deterrence of a nuclear war is a subject about which there is thankfully no historical information. Because we have never experienced nuclear war, our strategy of deterrence must be based in large part on informed judgement rather than on scientific analysis.

This is more than a philosophical point, however, for a strategy of deterrence is ultimately based on a view of just how a nuclear war might most likely occur. This in turn means that our military posture reflects our best assessment about the unknown. If we guess wrong — and there can be no real way of ever knowing — we risk at the minimum the diversion of vast sums of money into unneeded military programs. At worst, like the French who guessed wrong when they built the Maginot Line, we risk catastrophe.

While there are many refinements, a strategy of nuclear deterrence can take one of only two forms. We can threaten to deny an adversary the ability to attack us, or we can threaten to punish him severely if he does attack us. If we pursue a strategy of deterrence by denial, we build weapons capable of disarming an enemy before he strikes or which directly counter his weapons during a strike. If we pursue a strategy of deterrence by punishment, we build weapons which can survive an attack and strike back with devastating consequences, making if foolhardy to contemplate an attack in the first place. The first approach deters an opponent by lowering his chances of success. The second approach deters an opponent by vastly raising the costs of success.

American Force Posture

Over time, we have consciously shaped our nuclear force posture around a minimum requirement of survivability. That is, we have deliberately built weapons that are capable of withstanding the worst possible attack and retaining enough retaliatory power to punish an aggressor.

While no individual weapon system can be protected from an attack, an arsenal can be built to ensure that at least a minimum number will always survive. We have achieved this in five ways: redundancy, dispersion, concealment, protection and diversity.

Redundancy: The American strategic nuclear arsenal currently holds roughly 9,000 separate warheads carried by 1,944 launchers: planes, land-based missiles and submarine-launched missiles. The number of American launchers has been constant since the mid-1960s. (In fact, we have substantially cut back on our bomber fleet and have recently retired five submarines.) But the number of separately targetable warheads has grown enormously. We have far more than the estimated 400 megatons needed to destroy half of the Soviet industrial base and kill more than one-third of its citizens. But to make sure our deterrent force is survivable, we have had to allow for the loss of weapons in a Soviet first strike, the inevitable failure of some weapons and luanchers to work properly, and the possible destruction of bombers enroute to the Soviet Union. In other words, we have deliberately built excessive or redundant systems to ensure that enough will survive in the worst possible case. This helps to foster deterrence.

Dispersion: The land-based ICBM force is positioned in more than 1000 separate silos scattered over hundreds of thousands of square miles. Our bombers are based in many locations, and can disperse to hundreds of airfields in the event of a crisis. Our fleet of submarines, our most defensible force, uses several ports when stationed in home waters. The net effect is to ensure that our deterrent cannot be destroyed with a few well-placed shots.

Concealment: It is impossible to hide ICBM silos and military airfields. But our fleet of 36 strategic missile submarines relies on concealment and mobility for its survival. At the moment, this is our greatest assurance of a huge retaliatory force that can survive even the most improbably successful Soviet attack. Of course, the Soviets know this too.

Protection: If an enemy can find our submarines, he can destroy them. But our land-based missile force relies on protective measures, mainly the hardening of missile silos to withstand enormous pressure. Our bomber force relies on a variety of electronics measures for protection from Soviet fighters.

Diversity: Most important, we have based our weapons in three different types of launchers, each of which has different strengths and weaknesses. Nearly one-third of our weapons, and one-half of our total megatonnage, is carried aboard bombers. The submarines at sea carry about one-half of our warheads, but only a small fraction of our overall megatonnage. The land-based missiles carry the rest of our forces.

This diversification among a "Triad" of launchers means that an attacker must eliminate three sets of weapons, each of which relies upon a unique survival scheme. No enemy could carry that off. An attack on one of the three elements of the Triad would provide the warning time needed for the other two to escape,and a simultaneous attack on all three is impossible. For instance, it takes about 30 minutes for a ballistic missile to arrive in the U.S. from the Soviet Union. We would be able to detect a missile within 10 minutes of lunching. That gives our bombers 20 minutes to take off. In the meantime, even if our land-based missiles come under attack, the submarines at sea will remain unthreatened.

This means that any Soviet planner who considered launching nuclear weapons at us would have to expect an American response with thousands of warheads. In short, we need not fear a totally disarming first strike.

The "Window of Vulnerability"

There is another concern, however. It is one that has plagued U.S. officials since the early 1970s. While our bombers and subs could survive an attack in sufficient numbers to destroy any nation, there is a *theoretical* possibility that a limited Soviet attack could destroy the bulk of our land-based ICBMs in their silos. This would deprive us of a unique asset, because the ICBMs are the only force that can be launched quickly and with extreme precision against individual targets. Losing this capability would be a serious setback to our flexibility. It would also seriously threaten our ability to carry out all of our existing commitments to the NATO alliance, a point I will expand on in the next chapter.

It is possible that a Soviet planner might wish to use a small part of an immense nuclear arsenal to strike only at our fixed-site ICBMs, while withholding the bulk of the weapons for later use. Such an attack would cause massive damage to the U.S., with casualties ranging from the hundreds of thousands to the millions, (although an all-out attack on cities, on the other hand, would kill tens of millions). This less-than-total Soviet attack on our most flexibile and accurate nuclear weapons would leave an American president with an awful choice: do nothing, or respond with less precise weapons targetted on Soviet cities, knowing that to do so would kill millions of innocent Russians and millions of innocent Americans who would die in the subsequent Soviet response.

Again, this scenario is only theoretical. It is hard to believe that any sane person would risk his own society for such a limited gain. But it is one that has plagued every American president for more than a decade. Currently, this scenario is referred to as the "window of vulnerability" — that period of time before we take measures to prevent a theoretical attack on our ICBMs.

The Capability of Soviet ICBMs

The key assumption, of course, is that our land-based ICBMs are now vulnerable to an attack. Specifically, it is assumed that the Soviets have forces with sufficient reliability, flexibility, and accuracy to carry off an attack on more than 1000 hardened silos scattered over hundreds of thousands of square miles, and to do so with *absolute* confidence that a high percentage of our ICBMs — 90 percent or more — will not survive to respond in kind. This assumption calls for a belief that land-based missile forces have three assets.

First, each of the 200 to 1,000 missiles in this scenario is assumed to be fully reliable. Remember that each one must go through several complex and interrelated operations, from ignition to lift-off to separation to re-entry to detonation. A failure at any stage of this process will mean a failure to carry off an attack. The odds are very small that several hundred missiles, few of which have ever been individually tested, will perform with total reliability. During World War II most navies found that their torpedoes — weapons far less complex than a modern ICBM — failed to work more than half of the time.

Second, the nation that launches the strike is assumed to be capable of absolute and split-second coordination among several hundred widely-separated launching sites, from lift-off to impact. For instance, to ensure that no American missile survives the attack, a cautious Soviet planner is presumed to launch two warheads at each of our silos. This would require exquisite coordination, if only because it is impossible to explode more than two warheads simultaneously over a small target area without one warhead destroying the remainder (a phenomenon known as "fatricide"). This effect lasts for a considerable time, since a late-arriving warhead flying through a massive mushroom cloud of debris would likely be damaged or deflected.

Third, it is assumed that the theoretical accuracy of the missile is the same as its real-world accuracy. In the ballistics field, accuracy is measured as "Circular Error Probable" (CEP), a measure of the distance from the target within which 50 percent of the warheads will fall. This means that on any given launch, there is a 50-50 chance that the warhead will fall farther away from the target than expected from a CEP. In effect, CEP is a measure of the dispersion of shots.

To add to the uncertainty, dispersion measures how "tight" a pattern of shots is, but not whether those shots are on target. Anyone who has target-fired a rifle is familiar with this phenomenon. An expert marksman can place many shots into a circle the size of a dime. But if his rifle sights are misaligned, that dime-sized cluster may be very wide of the mark. He can only compensate for this "bias" by adjusting the windage and elevation of his sights, and that requires repeated firings over the same range, with the same rifle, against the same target.

The fact is that neither the Soviet Union nor the United States has ever fired missiles over the trajectory that would be followed in wartime. Test shots of missiles typically occur over an east-to-west trajectory, while in wartime missiles would be fired over the North Pole on a very different path. This means that unknown differences in things like magnetic fields can create "bias" in the missile flight path. The ballistics engineers do not have the chance to go through the trial-and-error process of adjusting the launch pattern to hit a target accurately. Therefore, we simply don't know, and neither do the Soviets, whether or not the wartime shot patterns will hit the mark. And until we know, with extremely high confidence, it is unlikely that either side can realistically contemplate the prospects of a successful strike against such small targets as ICBM silos. The logical conclusion, then, is that much of the frightening rhetoric about a so-called "window of vulnerability" is exaggerated.

The threat is more theoretical than real. And it is difficult to see why any national leader, Soviet or American, would gamble so much for so little. If this point was controversial two years ago when I released my White Paper, it has been validated by the so-called "Scowcroft Commission."

There is probably more stability in the current nuclear balance than many people realize. A strike at land-based ICBMs would kill so many people that a desire for revenge might prompt a devastating counterblow. Moreover, an attack that destroys a large part of a nation's nuclear force would also cause massive disruptions in the command and control systems governing that force. In that case, even a nation that intended only limited retaliation might find that it could only respond massively. In any event, the nation that launched the first strike would have gained little. The risks of total destruction would be very high. Under these circumstances, it is difficult to see how a national leader would flirt with nuclear war. In that sense, the terror of nuclear weapons has dampened rather than increased the prospects of a direct U.S.-Soviet confrontation.

The Soviet-American Strategic Weapons Balance

Like the United States, the Soviet Union has built a Triad of nuclear weapons distributed among land-based ICBMs, submarine-launched missiles and bombers. However, the proportion of weapons carried on each leg of the Soviet Triad is very different from ours, reflecting different doctrine and technology.

The first difference is numbers. The Soviets have substantially more launchers than we do: 2,498 compared to 1,944. This is largely because the Soviets initially lacked technology to build Multiple and Independently-targetable Reentry Vehicles (MIRVs), which permit each launcher to attack several widely-dispersed targets. Instead, they put small numbers of warheads aboard a large number of launchers, while we put many warheads aboard a smaller number of launchers. Since the mid-1970s, though, the Soviets have perfected MIRV technology, and their land-based ICBMs carry as many as eight warheads apiece.

Additionally, the Soviets have a military tradition that emphasizes mass and redundancy. Therefore, they will tend to build large numbers of any given weapon. Furthermore, the Soviets tend to keep weapons in their military arsenal that we would consider obsolete and eligible for retirement. They do everything possible to keep their technology up to date, but instead of replacing the older weapons with newer ones, they add the new weapons to their existing stockpiles.

A second difference between Soviet and American nuclear arsenals is explosive power. Russian warheads tend to be substantially larger than ours. In fact, net American megatonnage has appreciably declined since the early 1960's. The Soviet reliance on megatonnage has permitted them to compensate for the greater accuracy of our warheads by substituting blast effect for precision when planning for missions against hardened targets such as ICBM silos. This advantage in overall megatonnage, compounded by impressive gains in the accuracy of Soviet guidance systems, prompted the concern over the "window of vulnerability."

The third difference is that the Soviets have deployed fewer warheads than the United States. Most estimates put the Soviet arsenal of strategic nuclear warheads at 7,000–7,500, compared to roughly 9,200 for the U.S. That may not last long, though. As the Soviets use MIRV technology for their newer launchers, they are likely to deploy more and more warheads.

The final, and perhaps most important difference, is the Soviet emphasis on land-based ICBMs. Nearly two-thirds of Soviet warheads are carried aboard ICBMs, amounting to more than half of their total megatonnage. There are two reasons for this: the Soviets prefer land-based launchers that can be tightly controlled from Moscow, rather than submarines, which allow their commanders some autonomy; and the Soviets recognize that counter-force attacks, which their doctrine emphasizes, are best carried out by ICBMs. The other side of this coin, however, is that as concern grows over the theoretical vulnerability of ICBMs to a disarming strike, the Soviets have more to fear than we do because more of their arsenal is at stake.

It should be clear from this summary that it is very difficult to say just who is "ahead" in the nuclear arms race. Soviet nuclear forces have some assets that ours lack: more megatonnage, more launchers, and more "hard-target kill" capability. But in other areas, our forces have the upper hand: greater diversity, more warheads and better accuracy. The key point is that neither side can successfully disarm the other in a first strike. Both sides rely on redundancy and diversity to make sure that a large retaliatory force will survive a first strike.

Soviet and American Doctrines

Soviet forces are tailored in large measure to reflect a historical Russian preference for deterrence by denial. The Soviets understand as well as we do that a nuclear war would be an unprecedented catastrophe, and that there would be no winners in any meaningful sense of the word. Like us, they seek both to deter a nuclear attack and to obtain some political leverage from their awesome power. But they rely more explicitly than we have on deterrence by denial rather than on deterrence by punishment. This is why they have gone to such lengths to obtain a civil defense system and to protect their leadership in blast shelters.

However, they also understand the laws of physics and of statistics. The recognize that a denial strategy cannot be totally successful because it is impossible to knock out enough of an opponent's forces to limit damage from a retaliatory strike.

By the same token, the United States never has relied solely on deterrence by punishment, or "Mutual Assured Destruction. Ever since the Kennedy administration, we have had far more warheads than were needed for a minimal assured destruction capability — for deterrence by punishment. Even though President Kennedy eventually abandoned his attempts to reorient our doctrine around counter-force strikes, we have preserved some major elements of this approach to supplement our ultimate reliance on Mutual Assured Destruction. In other words, we have recognized the ultimate reality in today's world: there can be no winners in a full-scale nuclear war. Russians and Americans alike are held hostage to the huge superpower arsenals. But while we have recognized that the ultimate threat is mutual oblivion, we have also sought options short of so drastic an end.

Much of the furor over recent doctrinal developments in the United States is therefore overstated. When President Carter authorized the preparation of a document known as Presidential Directive 59 (PD-59), many people claimed that he was abandoning our traditional emphasis on deterrence by punishment, an emphasis which was allegedly at the heart of the SALT I Treaty. While PD-59 has not been released to the public, enough is known to understand that the document was largely a codification of American policies that had been in place for years. It was not a major reorientation. Thus, those who saw this as a "victory" over the "discredited" doctrine of assured destruction were as incorrect as those who saw this as a "retreat" from the "accepted" doctrine of assured destruction. Our doctrine had never been that simple to begin with.

Similarly, some of the steps taken under the Reagan administration are refinements to or codifications of longstanding policies. But there have been some disturbing aspects of the policy announced by Defense Secretary Casper Weinberger.

As I noted in my defense paper, the United States has relied on its nuclear weapons too heavily for too long. Nuclear weapons do not defend, they only destroy. They are needed for deterrence, and as such are vital to our security posture. But a number of officials in the Department of Defense have seemed more concerned about such esoterica as the "window of vulnerability" or "limited nuclear war" than about our real defense problems. These include the decline in our general purpose forces, the abysmal state of our foreign policy and the lack of progress on arms control. It is misleading to use nuclear weapons as a simplistic summary index of our overall national security, or to engage in "bean counts" about "superiority." And it is crucial to nuclear arms control that we not assume their use to fight and win a war.

To reiterate, there is no such thing as a winnable nuclear war, no matter how limited. Once we have crossed over into the realm of nuclear warfare, there is absolutely no guarantee that rationality and precision-tuning will be possible. Instead, as has happened in other wars, confusion will prevail and technology will govern decision-making.

As Thomas Schelling noted in a brilliant essay some 20 years ago, the line that separates nuclear from non-nuclear weapons is much more clear and precise than the line that separates small from big nuclear weapons. Once we have crossed that line — once we have gone beyond the nuclear "firebreak" — there is every reason to believe that we will be confronted with nearly uncontrollable escalation to full-scale attacks on cities, and little reason to believe that we can control events.

When the Soviets flirt with counter-force exchanges, as they do in their doctrine, they come dangerously close to believing that the line can be crossed. It is our responsibility to convince them otherwise, both by repeating the simple facts of life *and* by seeking to deter them in kind, at least insofar as we can modesty alter our command structures. But it is unwise for us to consider adopting the same kind of pol[illegible] urselves,and to engage in an illusory pursuit of victory. It is the *fear* of nuclear war which *prevents* nuclear war. When that fear is dampened by a belief in the possibility of victory, deterrence is undercut.

Strategic Weapons Modernization Plans

Given what I have said thus far, it might strike most people as odd that we should even contemplate building any more nuclear weapons. After all, isn't enough enough? Why add to an already useless capacity to kill ourselves many times over?

In large measure, this sentiment is my own. I feel that our real national security weaknesses lie in the area of nonnuclear forces. I particularly feel that such programs as the MX missile are both dangerous and a colossal waste of money. Nonetheless, there can occasionally arise circumstances where some modernization, carried out selectively, is needed. One reason, of course, is to continue to ensure that our overall arsenal is unambiguously survivable. This will foster caution in the event of a crisis. Another reason is to replace systems which have simply worn out over time. A third reason is to move our arsenal away from a potentially dangerous reliance on land-based missiles and toward other methods of basing nuclear weapons — to *alter* our force as much as to modernize it.

Nonetheless, the onus must lie on those who argue for more nuclear weapons programs. Thus far, President Reagan has been generally guided by the precepts of the strategic modernization "package" which he announced in late 1981. Let us examine the components of that package.

Several components are clearly questionable. Several are not. In the latter category, three stand out: command, control, communication and intelligence (commonly referred to as "C3I"); a new manned bomber; and improvements in our sea-based strategic nuclear weapons.

C3I. Perhaps the least appreciated but most pressing needs lie in this area. The C3I systems are the vital links by which we determine whether we are being attacked, assess the damage inflicted, provide for and communicate an appropriate response, and — most important — guard against false alarms. Anybody who has seen the movie "War games" is aware of the hazards of faulty C3I systems.

It is difficult to speak in much detail about these systems, for much of the information is necessarily highly classified. But clearly, they are vital to our posture of deterrence. It does little good to base our security on an assured response to attack if the orders to respond in an emergency cannot be communicated to the proper authorities in a timely manner.

Quite sensibly, we have spent considerable effort ensuring that nuclear weapons cannot be released without first going through numerous validation procedures. Indeed, there are any number of physical safeguards — "positive action links" — which prevent warheads from being detonated even if they are inadvertently dropped. Not long ago, for instance, a Titan missile exploded in its silo in Arkansas with a force sufficient to propel a 750-ton silo door several hundred feet. The warhead of the missile was physically ejected from the silo, but the positive action links ensured that it did not explode. In other words, there is probably less risk of a "fail-safe" accident than many assume. To the contrary, it is perhaps more likely that our weapons will not detonate even if they are launched deliberately than that they will be detonated by mechanical accident.

If deterrence is to work, however, an adversary must understand and fully believe that an attack on us will be followed by retaliation. To the extent that retaliation can be prevented, whether by direct action such as a disarming first strike or indirect action such as defenses, deterrence is weakened. While I do not believe that a disarming first strike can be carried off successfully, thanks to our reliance on a Triad, there is a somewhat greater chance that our strategic nuclear systems could be rendered blind and ineffective by an attack on our C3I systems. And this, of course, makes it somewhat tempting for an adversary to contemplate an attack on these systems rather than on our strategic nuclear forces themselves.

Indeed, as a recent study by the General Accounting Office noted, our C3I systems need substantial improvement if we are to implement our existing nuclear policy. The study was remarkable in that the GAO is known as a frugal agency which typically suggests cutting rather than increasing spending. Their major point was clear, however: it makes little sense to contemplate building such elaborate and capable systems as the MX missile until we have first solved a number of severe problems with our C3I systems. Three general categories of problems characterize our C3I systems: vulnerability, reliability, and sustainability.

The *vulnerability* of C3I derives from the fact that our entire communications structure is highly centralized and can therefore be disrupted with relatively little effort. This was the point made with such effectiveness in "Wargames." Just as important, however, electronics and communications equipment is highly susceptible to disruption, jamming, or outright physical destruction through a phenomenon known as Electromagnetic Pulse (EMP). The detonation of any nuclear weapon generates a huge surge of EMP which interferes with or destroys electronics equipment that is not specifically protected or "hardened." Far too little of our C3I structure is sufficiently hardened. Our C3I could be blinded by a few well-placed explosions far above our territory, meaning that we could face a substantial weakening of our strategic nuclear forces without suffering a direct attack on the United States.

The *reliability* of our C3I systems has been called into question by a number of recent press reports of false alarms and other flaws in our command and intelligence systems. Such errors are simply intolerable. We can take some comfort, of course, in the fact that verification procedures and positive action links have ensured that we have not overreacted to false alarms. But we can take little comfort from the thought that obsolescence in our C3I systems has eroded the confidence which we must have in the security and integrity of our strategic nuclear forces.

Finally, our C3I systems are not fully *sustainable* under all circumstances. The chief example of this is the extreme difficulty of safely communicating with the strategic missile submarine fleet. Most radio waves do not penetrate water to a depth sufficient for communication with deeply-submerged subs. But it is vital that our strategic fleet check in with the national command authority on a regular basis. To do so, the submarines must either trail a lengthy antenna wire or operate near the surface of the water. Either operation substantially increases the probability that a submarine will be detected. Our high confidence in the survivability of our submarine fleet, however — confidence which helps us guard against over-reacting to every theoretical threat — is based on the presumption that submarines cannot be located by Soviet forces. Their survival ensures our survival. It is therefore vital that we improve the ability to communicate with our sea-based strategic deterrence force.

Manned bombers. The air-based leg of our strategic Triad is currently represented by slightly more than 300 B-52 bombers. (Some 72 FB-111 fighter-bombers are also occasionally counted, but they are far less capable than the B-52s). The President has decided to retire three squadrons of our oldest B-52s, to purchase 100 austere versions of the B-1, and to press forward with research and development on the "Stealth" Advanced Technology Bomber (ATB). The total cost of this modernization program is expected to be $63 billion over six years, a staggering sum.

The B-52 has been the workhorse of the Strategic Air Command for 30 years. It was originally designed in the late 1940s, and the first B-52 flight occurred in 1951. Since that time, the plane has gone through numerous modifications and upgrades, and it has demonstrated its versatility in conventional bombing missions, sea-lane control missions, and strategic nuclear deterrence. In doing so, it has taken a beating. A plane that was originally designed to fly at very high altitudes is now being used to fly at altitudes of only several hundred feet, and this puts a severe stress on the airframe. Moreover, the newest B-52 entered service in 1962, and many of these aircraft are older than the pilots who fly them. There is widespread recognition that the B-52s will soon have to be replaced. The real question is what replacement program we pursue.

In large measure, the answer to this question reflects the degree to which one emphasizes the strategic nuclear forces or the general purpose forces. President Carter recognized that because of advances in Soviet air defense, the B-52s will soon be unable to penetrate Soviet airspace on a strategic nuclear mission. He chose not to develop a new penetrating bomber, the B-1, but instead opted to rely on air-launched cruise missiles which can be fired by an aircraft from many miles outside Soviet airspace. In President Carter's view, the important question was ensuring that adequate numbers of strategic nuclear warheads are survivable and deliverable. The means of delivery — whether by penetration or by standoff bombardment — was in his view less important. Hence, he chose to emphasize cruise missiles in the short term, with a long-term emphasis on the Stealth aircraft. This decision was shaped in large measure by the President's view that the sole function of our long-range bombers should be to provide for strategic nuclear deterrence.

But, over time, the B-52 has demonstrated its utility as a multi-role bomber. For instance, it is currently capable of penetrating Soviet airspace; carrying large numbers of cruise missiles; providing for control over the sea lanes with conventional weapons; and backing up our Rapid Deployment Force with conventional bombing strikes delivered from the United States. In other words, the B-52 is useful in large part because it is a multi-role bomber.

With this in mind, Senator John Glenn successfully introduced an amendment in 1980 which requires the Air Force to develop a new multi-role bomber capable of flying before 1987. Such a plane, much like the B-52, will serve as a penetrator, a stand-off cruise missile carrier, and as a platform for conventional weapons. The Glenn amendment was supported by a spectrum of Senators ranging from George McGovern and Alan Cranston to Barry Goldwater.

In this respect, President Reagan's decision to proceed with a newer version of the B-1 bomber makes good sense. Since the B-1 was cancelled in 1977, further research and development — much of it deriving from the "Stealth" research program — has succeeded in reducing the radar visibility of the B-1, making it a far better penetrator today than it was four years ago. Moreover, modifications to the basic design have given the plane a genuine multi-role capability. While there is some dispute about cost estimates, it is likely that the B-1 could be available in the very near future (before the 1987 date mandated by the Glenn amendment) at a cost of perhaps $250 million per copy. While this is undeniably expensive, *any* modern strategic bomber will cost at least as much, including the Stealth ATB. But more important, the B-1 is a known and mature technology, it can function as a multi-role bomber over long ranges and with high payloads, and it can be available quickly.

Many persons are concerned that the B-1 may not be able to penetrate Soviet airspace for more than a few years, and that investment in the B-1 therefore represents a massive waste of money. In my view, the point is neither wholly accurate nor wholly pertinent.

In the first place, many analyses of penetration capability are based on worst-case assumptions. Clearly, if *any* plane had to fly into fully-prepared Soviet air defenses, it would stand little theoretical chance of success. But a strategic bomber will not be launched except in response to an attack on the United States. Such an attack would be met at first by some or all of our land-based ICBMs and possibly many of our submarine-launched missiles as well. Many of these missiles might well be directed toward the suppression of Soviet air defenses. In other words, in the unholy environment of a strategic nuclear exchange, there may be few air defenses left with which to shoot down *any* bomber, regardless of its theoretical vulnerability to detection.

Second, there is a tendency to overstate the worst case assumptions in terms of what we already know about Soviet air defense capabilities. As we were recently reminded by the brutal destruction of a Korean Airlines plane with 269 civilians aboard, the Russians have often failed to run their air defenses well. In a prior incident in 1978, a South Korean airliner inadvertently drifted deep into Soviet territory. It was eventually met by Soviet fighter aircraft which fired on the airliner, punching a large hole in the fuselage.

The airliner fell several thousand feet before the pilot regained control. At that time, the pilot lowered his landing gear, turned on his landing lights, and went on the radio pleading with the Russians not to shoot any more. Despite all this activity by the Koreans, Soviet fighter pilots and radar lost sight of the airliner for nearly half an hour. And this incident occurred over an area which the Soviets expect to be a major approach route for our bombers in the event of war. In other words, we may overrate Soviet effectiveness.

Third, an attempt to confine the debate about the B-1 to a discussion of penetration is an attempt to constrain the argument in terms of what is pertinent. In my opinion, it is important that we obtain the maximum possible flexibility from the weapons in which we invest. In the case of our long-range bombers, this means making them suitable for multiple missions, conventional as well as nuclear, theater as well as strategic. This was the view mandated by Congress, in 1980, and it remains binding today. So long as the new Stealth bomber is not capable of multiple missions, the B-1 remains a better choice.

Finally, the B-1 represents a known technology. This, of course, suggests both the perils and the promises of the Stealth aircraft. Such a plane — which does not yet exist — could potentially revolutionize aeronautics. But such predictions are based only on laboratory results, and we have found far too often in the past that cost overruns and schedule delays are the only result of extreme enthusiasm about radically new technology. The C-5A aircraft is a case in point. And just as important, the Stealth aircraft will not have the airframe size necessary for such missions as cruise-missile delivery, conventional bombing missions, and other requisites of a multi-role bomber.

I therefore believe that the President's decision to purchase 100 B-1 bombers while pursuing research into Stealth technologies is prudent and sound. It represents a balance between mature and developing technologies; it avoids overcommitting us in any given direction; it gives us needed capabilities in time; and it provides for a mixed force which will last well into the next century.

Sea-based Forces. The sea-based leg of the Triad is being modernized with the recent adoption of the first *Ohio*-class Trident submarine, a huge vessel which will carry 24 extended-range missiles. The good news is that the extra range of these missiles means that the submarine can patrol over a much larger ocean area. This provides more territory in which to hide, making it less likely that Soviet antisubmarine warfare tactics could reveal the location of our deterrent forces. This is a welcome development, for it stabilizes the nuclear balance by making it even more unlikely that a Soviet planner could contemplate a successful disarming strike.

At the moment, our submarines are being fitted with the so-called "Trident I" (or C-4) missile, which can fit into existing Poseidon boats as well as the newer Trident submarines. The range increase of the Trident I over existing missiles is such that our forces will have four times the ocean area in which to hide. Within a few years, however, the Trident submarines will be fitted with a "Trident II" (or D-5) missile, which has even greater range, permitting a ten-fold increase in the ocean area available for concealment. Just as important, the Trident II missile will be sufficiently accurate to take over many of the missions now covered by our land-based ICBMs. As more doubt is raised about the theoretical survivability of our land-based ICBM force, it will be increasingly important to ensure that our sea-based forces are both invulnerable and highly capable. On the other hand, we must be careful to ensure that the Trident II is not built in numbers which suggest a first-strike capability.

The bad news, however, is that the Trident II missiles are so large that they cannot be fitted into existing submarines, but must instead be carried aboard the new Trident submarines. And these submarines are extremely expensive. The early development of the Trident project was plagued by quality-control problems, delays, and cost overruns. The result is that the cost of the Trident submarine is now estimated at $1.16 billion per copy, and at least eight more are planned. Fortunately, Secretary of the Navy John Lehman was unprecedented in his outspoken criticism of the performance of the Trident contractor. As a result, the contractor is now delivering both Trident and attack submarines for commissioning in record time and the Secretary is satisfied that the problems in the Trident program are ended.

It is important to remember that while the Trident program is enormously expensive it is also the most survivable element of the strategic nuclear Triad. Both our security and the prospects for arms control require survivable forces in which we can have absolute confidence, and the sea-based leg of our nuclear forces most fully provides this confidence. Given that the cost of a Trident submarine is the same as the cost of four — or fewer — manned bombers, I believe that investment in the strategic submarine force is a sound decision.

Although there is some concern occasionally expressed about the future survivability of strategic submarines, I am convinced that technology will continue to favor those who hide in the oceans over those who search for them. Certainly, the large size of the *Ohio*-class submarine, coupled with its basing in the narrow channels near Bremerton, Washington, might make it a bit more detectable than other submarines. Nonetheless, the United States has an impressive lead in the area of submarine concealment as well as in anti-submarine warfare, so we can anticipate and guard against threatening developments. Just as important, we have thousands of miles of open access to the oceans, and we should not forego the geographic advantage this gives us. Finally, the open seas offer limitless opportunities for other methods of basing a survivable strategic nuclear deterrent.

In this respect, two ideas bear further investigation. The first is the Shallow Underwater Mobile (SUM) concept developed by Richard Garwin and Sidney Drell. This concept envisions strapping two ballistic missiles, such as the current Minuteman, to the hull of small, diesel/electric powered submarines. These subs, which are inexpensive and which have minimal crew requirements, would patrol in the shallow waters along our coastline. It is thought that their operating characteristics would be sufficiently different from the Trident and Poseidon submarines to compound the challenge facing Soviet anti-submarine forces.

One other idea which merits investigation is the so-called "Hydra" concept, which envisions strapping flotation collars around the nose cones of missiles. These missiles would be carried aboard surface ships, which would rely on mobility for survival. In the event of a launch, the missiles would be dumped into the ocean, where they would float while the ship cleared the area. The advantage, of course, is that there would be virtually no costs involved in basing and launching technologies.

Neither the SUM nor the Hydra is needed at the moment, for it is clear that our strategic nuclear arsenal is robust and survivable. The point, however, is to demonstrate that in the event — however unlikely — our submarines should become potentially vulnerable, we can continue to look to the sea for a survivable deterrent.

Thus far, I have dealt with strategic nuclear weapons programs that, on balance, merit support. But as I stated earlier, the burden must lie with those who want to produce further such weapons. In my view, that burden has not been met with respect to three programs: sea-launched cruise missiles, continental air defenses, and the MX missile.

Sea-Launched Cruise Missiles: Even though I believe that we should look to the ocean for survivable basing of our deterrent, I do not believe that we should press ahead with every conceivable sea-based nuclear weapon. There is no better example of the limitations and perils of sea-basing than the nuclear version of the Tomahawk sea-launched cruise missile (SLCM).

A cruise missile is nothing more than a jet plane without a pilot. The term refers to a broad variety of missiles, and not a particular weapon such as the Tomahawk. When armed with conventional weapons, cruise missiles can be an efficient way to increase the power of even the smallest naval vessel, for they give any ship the ability to reach out hundreds of miles, much like an aircraft carrier.

But when armed with nuclear weapons, the cruise missile becomes both militarily useless and dangerous from the standpoint of arms control. That's why I have worked with Senator Charles Mathias for two years to seek their cancellation.

In the first place, the range of these missiles is substantially less than the range of the Trident C-4 missile. This means that submarines which are slated to fire the SLCM must move closer in to the Soviet shoreline where it is easier for Soviet anti-submarine forces to detect and neutralize them. In other words, the whole rationale for building Trident submarines is undermined to the extent that we begin to rely upon the shorter-range SLCM. It's true that the SLCM is a highly accurate system and one, moreover, that does not suffer from "bias." However, the deployment of such missiles is largely redundant. Even President Reagan referred to the deployment of such SLCMs as "a strategic reserve." When this justification was first used some years ago, close questioning by Congress indicated that "strategic reserve" referred to missiles which might be used after an initial exchange of ICBMs and other weapons. I can see little purpose except to make the rubble bounce.

If the deployment of the SLCMs does not appear justifiable on strategic grounds, there is the added complication that this plan risks substantially confusing our theater nuclear force decisions. More importantly, given the President's dramatic "zero option" challenge to the Soviet Union, the decision risks complicating the ongoing negotiations on theater nuclear weapons at Geneva.

The range of the SLCM suggests that it is more suitable for long-range theater nuclear forces than for strategic weaponry. Indeed, many early analysts proposed the SCLM for such a role. But at a time when the Alliance is committed to placing its long-range theater nuclear forces on the continent of Europe — if they are deployed at all — deployment of cruise missiles at sea threatens to distract attention and confuse our posture. This concern is so real that it was expressed by General Bernard Rogers, the American who serves as the Supreme Allied Commander in

Europe. Just as important, there are substantial verification problems posed by such a deployment, and it makes it exceedingly difficult to pursue successfully the Geneva arms talks.

Finally and importantly the Pentagon proposes deploying these missiles aboard our attack submarines. This risks severely degrading the tactical flexibility of our submarine fleet, a fleet which is already outnumbered by a ratio of nearly three to one. For instance, the space available aboard each submarine is very limited, so that if we choose to fire the nuclear-armed SLCM through torpedo tubes — as was originally contemplated -- we will be forced to off-load a torpedo or a similar conventional weapon. The only way to get around this constraint is by adding vertical tubes for the SLCMs, a proposal offered by the Pentagon. The costs involved are likely to be huge, and the benefits unclear. At a minimum, our subs will be forced to limit their independent operations in order to remain under tight control. This will drastically cut their effectiveness.

I have always known that our submarines are a vital element of our security, but when I sponsored the launching of the submarine *Minneapolis-St. Paul* (the first American vessel to bear the names of two cities) I learned in detail how important our subs are. They should not be compromised.

Continental Air Defenses. The President's strategic weapons program contains a renewed emphasis on active defenses against Soviet nuclear weapons, and it suggests spending $23 billion over six years. Some portion of this funding will go toward civil defense, a program which merits modest support. However, I believe that the proposal to revitalize continental air defenses — the defense against Soviet bombers — is a potentially wasteful program.

As I noted in my analysis of bomber penetration, bombers arrive many hours after the first warheads have fallen, and many of those warheads have been or will be directed against air defense systems. Thus, we are asked to invest in forces which are both highly vulnerable and a high priority target. In addition, the vast bulk of Soviet strategic nuclear forces are found in land-based ICBMs and in their strategic missile submarines. Their bomber force is relatively small, which means that we would be protecting ourselves against a threat that does not really exist. After all, it matters little that we are capable of shooting down their bombers if we have already been blown to bits by ballistic missiles.

On the other hand, an investment in six additional AWACS aircraft and five squadrons of F-15 fighters, as the President has proposed, could conceivably be worthwhile for other reasons. The principal advantage of these forces is that they fulfill more than a strategic mission. For instance, if we found that a crisis elsewhere required a rapid buildup in our fighter capabilities, we could divert the F-15 interceptors from their air defense mission here in the United States. This investment, in other words, provides forces that are fungible.

Nonetheless, I do not on balance believe that at a time of pressing economic circumstances and urgent defense needs we should invest in continental air defense. Only if I could be convinced that we need the new AWACS and F-15 aircraft for *other* purposes than air defense can I support this proposal. Until these purposes have been detailed, analyzed, and integrated with overall defense policy, they cannot be justified.

MX Missile: If any one weapons program demonstrates the paralysis of strategic thought, that weapon is the MX missile, re-named the "Peacekeeper" by President Reagan. This huge missile (193,000 pounds, ten highly accurate warheads each yielding nearly 400 kilotons of energy) has been around in one form or another for a decade. During that time, the underlying rationale has gone through several shifts, and considerable time, money and political capital have been wasted on finding a basing mode which is simultaneously survivable in the worst case and politically palatable to the American public in the best case.

At first research on the MX was undertaken as part of the modernization package needed by Secretary of Defense Laird to gain the acquiesence of some people to the SALT I Treaty. Later, as concern arose over the theoretical possibility that the Soviets might be able to destroy our land-based arsenal of Titan and Minuteman missiles, the MX was viewed as a way to close the so-called "window of vulnerability." Simultaneously, a few people began to emphasize that the highly capable warhead package on the MX would be suitable for counter-silo attacks in a "limited nuclear war." (This overlooked, of course, the reality that it is hardly "limited" to shoot ten warheads with each launching.) Finally, the MX was justified as a symbol of our national resolve and as a potential bargaining chip with the Russians.

With each shift in rationale, the case for the MX has become weaker, not stronger. Regrettably, those of us in public life spent too much time looking at the bizzare twists and turns of the search for a basing mode. This, of course, is understandable, for it was such things as the "racetrack" basing mode sought by President Carter that threatened to push total MX costs up to $100 billion. Moreover, it was the basing mode above all else which would ostensibly close the "window of vulnerability." Nonetheless, it is regrettable that more people did not focus directly on the MX missile itself, for we might have seen the end of this weapon some time ago.

At heart, the MX issue has been a debate about the role of perception in international politics. All of the attention to things like the survivability of ICBMs is insignificant unless we understand what we are really talking about: the way we think Russian leaders look at us, not the way their missiles perform.

In the earliest days, from 1973–1976, the MX missile was justified by its proponents on several grounds, not all of which were publicly acknowledged. First, there was the natural tendency of any bureaucracy (in this case, the Air Force) to build a "follow-on" to its earlier products. The MX was suggested because it was bigger, heavier, and more powerful than the Minuteman. Second, the MX missile was useful as a "bargaining chip" — not with the Russians, however, but with Congressional skeptics who might vote against the SALT I Treaty. Third, for the "defense intellectuals" (whose ability to give us new vocabulary often exceeds their actual influence on policy) the MX was useful because it capitalized on our lead in multiple warhead technology to offset Soviet leads in "throw-weight," the lifting power of a missile. At no point did anyone speak, pro or con, about things like the effect of a highly accurate set of warheads on the balance of terror which shapes our nuclear relationship with the Soviet Union. Instead, the missile was simply a gleam in some technologist's eye.

As plans for the MX took shape by 1976, the missile was increasingly debated in terms of its basing mode, not its offensive power. In part, this was because of a belated recognition that multiple-warhead systems were actually a two-edged sword. As the Russians began to catch up to us in MIRV technology, we began to fear their ability to strike at our land-based missiles. The great peril of a missile loaded with MIRVs is that a nation can launch only a small portion of its arsenal with hopes of disarming an enemy. The nation which strikes first can, at least in theory, gain a major advantage and still have many missiles left with which to coerce. In short, as the Russians developed MIRVs, it became possible to imagine that they might want to attack us.

This meant that much time was spent looking for a home for the MX missile. The simplest thing would have been to dig several thousand silos in the ground, and shuttle each missile from place to place. The Russians would have to strike all the silos in order to be sure that they had disarmed us, but this would mean that they would use up their entire land-based arsenal, and would be defenseless. Therefore they shouldn't want to launch an attack in the first place; deterrence would be preserved.

The simplest solution was not the best, however, at least in terms of policy. A multiple-silo plan would have made it difficult for the Russians to know exactly how many weapons we have aimed at them. Without verification, arms control talks would not go far. So the result was a bureaucratic compromise and a political nightmare — the "racetrack" system proposed by Jimmy Carter.

President Reagan expressed the views of most Americans when he ridiculed this basing concept during the 1980 campaign. But while he was attacking the "racetrack" system, he was also returning over and over to the theme that we faced a "window of vulnerability" — time during which our ICBM's would be vulnerable to the kind of Russian attack outlined above.

Caught as he was between refusing to adopt a system which was workable but unpopular and refusing to abandon a weapon which had become a political orphan, he proposed that we put 40 MX missiles into existing silos, and defer a decision on a "final" basing mode for the full 100 he planned to build. The result was that even his staunchest supporters, like Senator John Tower, chairman of the Armed Services Committee, refused to support a plan which seemed only to invite the "window of vulnerability."

As I studied the issue more and more, I was struck by how little attention was paid to what I think are the two critical issues underlying the MX question. First, was the "window of vulnerability" really a major concern, or was it only the kind of effective presidential campaign slogan we would see used every few years? We all now know the answer.

Second, without a real "window" was there any real need for the MX missile? In terms of overall megatonnage, we did not need to build up our arsenals beyond the vast overkill we already have. By every other measure as well, the MX began to strike me as a needless frivolity at best, and a dangerous mistake at worst.

If we want more accurate warheads — and it is not clear that we really need them or that they would help preserve deterrence — we can upgrade our existing missiles. If we want to bolster our commitments by having the means for a so-called "limited" strike, it escapes me how a missile which lifts ten warheads is more "limited" than current missiles, which lift three.

In short, like many people, I was led to conclude that the technical arguments behind the MX were non-compelling and contradictory. If there is no "window of vulnerability" because the laws of physics make it impossible, it is unclear why our own heavy missile should create one for the Soviets any more than their SS-18 has created one for us. The key point is this: technical arguments pro and con miss the mark so long as they are technical. At that level, no one can argue with any certainty about what will or will not work because they can't know.

The real issue therefore is the one of perception: Do we think that this missile will deter the Soviets from undertaking an attack they might otherwise contemplate? Do we think, as well, that the "national will" which we express by deploying a missile which few people believe is needed on technical grounds will impress our allies or our adversaries or do we think that adopting this missile will force the Soviets to counter-measures — like building a single-warhead missile instead of a giant — which is clearly in our mutual interest? If the answers to these highly speculative questions are "yes," then the missile should go forward. If the answers are "no", or even "undecided," it is senseless to spend another $16 billion or more when our real defense needs lie elsewhere.

The MX missile was ultimately built because the report of the President's Commission on Strategic Forces, the "Scowcroft Panel," altered the climate of the debate. The report deals with perceptions, not with technicalities. It dismisses the "window of vulnerability" as so much fiction; it lays to rest the fears that our ICBMs are obsolete; it strongly criticizes the very concept of multiple-warhead systems. But it endorses deployment of 100 MX missiles as a way to express our willl.

The effect in Washington was nothing short of amazing. People flocked to embrace the Report simply because it dealt with the one thing people in politics understand better than others: perception. The report was critical of the excesses of argument offered by the technologists on all sides, as it should have been. Nearly everybody who has expressed an opinion on the MX had to eat a large portion of crow, President Reagan more than anyone.

In stripping away the technical arguments, and in shifting to the question of perception, the report struck a familiar chord. Just as important, in suggesting a bargain — accept the MX in order to shift our emphasis to a new and helpful generation of single-warhead missiles — the report dealt with a readily understandable concept for politicians accustomed to thinking about trade-offs and deals.

In short, the MX missile ended its trek through Congress as it began. It was a bargaining chip, not a weapon, and an idea rather than a tangible entity. The report of the Scowcroft Commission tried to give something to everybody: arms control for the arms controllers, a missile for the nuclear-oriented defense faction, and a bargain for the "practical" politicians.

From the moment the Scowcroft report was released, the result was practically foreordained. The finishing touch was the President's willingness to embrace the report, even though it had virtually eviscerated his principal ideas and policies. The President went so far as to permit himself to be used by chest-pounding Congressmen whose photo opportunities at the White House during MX "test votes" are designed to help their images as arms controllers.

What all this shows is that the *politics* of arms and arms control will override the policy considerations until such time as the MX can be buried. It has taken on a life of its own as a political symbol, not as a land-based ICBM which merits sober consideration.

To those of us who are still trying to bury the missile, the next issue must be the question of flight-testing. Current arms control agreements specify that each country is allowed to flight-test one new missile. If we use up that flight test on the MX — a weapon which is built for perception rather than military utility — it will be difficult to obtain Soviet agreement for a flight test of the single-warhead "Midgetman" which the Scowcroft Panel suggests we undertake.

To some in the freeze movement, a missile is a missile, and we should not want to test the Midgetman. Instead, we should seek an "immediate and verifiable freeze on the testing, production and deployment of nuclear weapons" as the House recently voted.

But the MX story shows the futility of such utopian solutions. It shows why the freeze has become more of a badge for politicians than a framework for real arms control. Like many compelling ideas, it simply won't take root in Washington or in Moscow, in part because politicians will continue to vote for it and then for the MX, and in part because it won't address the real issue: how to move us off the dime in our arms posture. If Midgetman is the means to do that, it will merit support. The MX surely is not.

4 Theater Nuclear Weapons and NATO

". . . there are and will be some differences of interest within NATO, as there must inevitably be in an association of free and sovereign nations."

In the context of U.S.-Soviet confrontation, our strategic nuclear force arsenal is more than large enough to deter a direct attack on the United States. However, our strategic nuclear force posture is designed to do more than prevent a direct "bolt-from-the-blue" attack on the United States. It is also designed to *extend* deterrence to the NATO alliance. The United States has pledged for more than 30 years that an attack on our European allies risks nuclear retaliation from the U.S. The aim of this posture, of course, is not to win a nuclear war involving Europe — for such a war would be unwinnable — but, rather, to deter any kind of war in Europe. This point bears so directly on discussions of "overkill" and arms control that it must be examined in some detail.

The "Balance of Imbalances"

The NATO alliance was formed to prevent the Soviet Union from exploiting its geographical position in Eastern Europe and overruning a Western Europe prostrated by World War II. Since the late 1940s, this alliance has been the most important focus of American security policy. Soviet occupation of Europe, no matter how implausible it might seem now, would represent a catastrophic shift in the balance of world power.

The economies of western Europe in the 1940's could not handle the task of deterring the Soviet Union's massive standing army. So the United States chose, under President Eisenhower, to emphasize our "quality" against Russian "quantity," to offset their conventional forces with our nuclear forces and to create a "balance of imbalances."

This policy consisted of two related elements. First, we sought to deter by punishment, stating repeatedly that our strategic nuclear arsenal would be used if we or our allies were attacked. In other words, we began to extend deterrence beyond our shorelines. This was the famous "Massive Retaliation" doctrine articulated by John Foster Dulles.

Second, the United States tried to substitute nuclear weapons for ground troops in Europe by developing a force of some 7,000 weapons for "battlefield" use. Most of these weapons, which had very short ranges, were *not* designed for deterrence by punishment. Instead, they were designed for an active defense — deterrence by denial. They were not targetted on Russian population centers but on avenues of expected Soviet advance inside Germany. They were seen at the time as inexpensive substitutes for a large standing army — a form of "defense on the cheap."

An Erosion of Confidence

The Massive Retaliation doctrine may have made some sense in the early 1950s, when the United States had a virtual monopoly on central strategic systems. We could threaten retaliation without fear of a counter-blow. But as the Soviet Union began to develop its own long-range strategic nuclear arsenal, our guarantee lost credibility. What European could believe that a non-European power would respond with nuclear weapons to a conventional attack on Europe, particularly when to do so would mean a nuclear response? What American president would automatically destroy Moscow because of an attack on Bonn when to do so would mean the destruction of Boston?

These questions about the utility of extended deterrence began to emerge in the late 1950s, and they were given a particular push by candidate John Kennedy's warning of a "missile gap" — an early version of the "window of vulnerability." When President Kennedy later disavowed the missile gap, few Europeans noticed. What they remembered was his apparent confirmation of the worst fears of most Europeans — that the United States did not have the necessary strategic superiority to back up its nuclear guarantee to Europe.

These doubts remain today largely because the Soviet Union has developed a sufficiently survivable force to assure retaliation if the U.S. uses nuclear weapons to halt an attack on Europe. The doubts can be assuaged only by making it unmistakably clear to our allies, and to the Russians, that we are inextricably involved in the defense of Europe, that we will not pull out at the last minute, and that we consider an attack on Europe indistinguishable from an attack on the United States. This has been the entire thrust of our postwar security policy, and so far it has worked. Most analysts believe that the least likely place for a U.S.-Soviet confrontation is Europe, because the stakes are so clearly defined and the risks of uncontrollable escalation so high.

If the U.S. were to disavow its nuclear guarantee to Europe, more nations — particularly Germany — would be tempted to follow the example of France and build their own nuclear force, independent of the NATO alliance. There is nothing more certain to give nightmares to the Russians (and to those Europeans with long memories) than the specter of a nuclear-armed Germany. In large measure, it is the American nuclear pledge to Germany that ensures that Germany will remain nuclear free.

But if the extended deterrence provided by our strategic nuclear arsenal is basically sound, our policy concerning "tactical" and "theater" nuclear weapons is not. These weapons represent a major arms control nuisance, and a potential threat to peace. Ironically, it is the short-range tactical weapons that are at the heart of the problem, not the much-publicized intermediate range weapons such as the ground launched cruise missile or the Pershing II ballistic missile.

The U.S. placed "battlefield" nuclear weapons in Europe in a desperate quest to hold down defense costs in the face of huge Soviet armies. But from the start, we recognized we had a problem. To plan to attack troops with "small" nuclear weapons (often larger than the Horshima bomb) means massive damage to the surrounding areas. And when the range of the weapons involved is very short — 15 miles in some cases — the weapons will inevitably be exploded on friendly territory.

According to a series of studies (conducted by the Army in 1955) titled "Carte Blanche," exploding only 375 tactical nuclear weapons to defend Germany would kill more Germans than the entire allied bombing campaign of World War II. It would also poison much of Europe with fallout. Yet, under the plans then envisioned by our political authorities, we would need to use far more than 375 weapons. It might take as many as two tactical nuclear weapons to stop only one company of Soviet tanks.

In addition, it was found that the battlefield weapons would require so many support personnel, and would cause so many unintended American casualties, that our manpower requirements would actually increase rather than decrease, as planned. Thus, we could not achieve the dollar savings we desired.

Finally, short-range weapons must be stationed near the likely scene of battle — near the border with East Germany. This means that they are easy targets for pre-emption. The only way to avoid this is to spread them out to many sites, but this raises the risk of loose security, an alarming prospect in an age of terrorism. As a result, we have stored our launchers — the missiles and artillery pieces — near the front, but have stored the actual warheads further to the rear in a few central depots.

This is the worst of all possible solutions, for central depots are easily attacked, and they represent a nearly irresistible target in the event of a crisis. Moreover, if we were actually to plan on using a tactical nuclear weapon, perhaps in a so-called "demonstration shot," we would need to transport it to the front. Before doing so we would need to get approval from the host government and from the President. By the time the release was authorized, the border would probably have been overrun.

The Quest for a Solution: Flexible Response

Over the past 15 years or more we have tried to deal with these dilemmas in various ways. First, as early as the 1950's, we started looking for a "clean" nuclear weapon, one that would leave no fallout and little damage beyond the immediate target area. We came up with the enhanced radiation weapon, or "neutron bomb." But this weapon does not really solve the problems inherent in nuclear defense. It is, in fact, potentially harmful in that it suggests we can draw distinctions between nuclear weapons. To the extent that the neutron bomb is seen as "clean," it invites use.

Second, we have gradually shifted more of our emphasis away from short-range battlefield nuclear weapons to intermediate-range nuclear weapons, which can be used to attack rear echelons, airfields, and so forth. They can also be used for punishment rather than denial. At first, most of these weapons were carried on fighter-bombers, but this is no longer seen as workable. The planes can be shot down; worse, every plane required to stand by with nuclear weapons is a plane that can't be used in conventional combat. This only weakens our defense and forces an earlier consideration of escalation to nuclear weapons.

But altering the technical characteristics of our theater and battlefield nuclear forces does not eliminate the dilemmas. Thus, perhaps the most important step we have taken has been to negotiate with the NATO allies a policy of "Flexible Response" based on "forward defense."

Throughout the early 1960's, the United States repeatedly urged its European allies to devote more attention to their conventional forces. Almost from the beginning NATO had failed to meet the obligations it had undertaken with respect to conventional forces, largely because the Europeans were reluctant to assume the burden of high peacetime defense budgets. It also became increasingly clear that the Soviet ground forces were huge, capable, and able to menace our friends and allies in the event of a crisis. Only by meeting this threat in kind could we avoid the kinds of dilemmas posed by reliance on theater nuclear weapons. And only in avoiding these dilemmas could we be sure of bolstering deterrence across the entire spectrum of conflict.

Negotiation of the Flexible Response doctrine was very difficult. First, the Europeans continued to doubt the wisdom of the investments needed, particularly at a time when the U.S. seemed more interested in Vietnam than in Europe. Second, the Europeans strongly believed that the best way to deter *all* war, conventional or nuclear, was to make it unambiguously clear that the slightest conflict would inevitably escalate to a general conflagration — in short, to deter by threatening escalation just as our Massive Retaliation doctrine had done in the 1950's. Third, no European could look with equanimity on the prospect of a sustained war using conventional weapons. The longer such a war went on, the more the Europeans would suffer, while the United States and the Soviet Union enjoyed a sanctuary in their homelands, miles from the fighting. On the other hand, no one could sensibly argue that the U.S. should invite retaliation on its own territory simply in order to share the misery. Finally, the Germans in particular were concerned that a defense based on conventional weapons would lead to the loss of substantial German territory. Germany, after all, is on the front lines, and it lacks strategic depth. A standard strategy of "defense in depth", trading space for time, would lead to the occupation of as much as two-thirds of the German population.

The Flexible Response doctrine meets all these concerns chiefly by being an ingeniously vague statement. The overall thrust is clear, even if the specifics are not. The NATO alliance will rely on "forward defense" with conventional troops as close as possible to the inter-German border, hoping to preserve as much West German territory as possible. Should the defense of Europe by conventional means fail, however, the NATO alliance reserves to itself the right to resort to the first use of nuclear weapons.

Such weapons can do three things, depending on one's perspective. They can signal our resolve, thereby bringing the Russians to their senses. They can "fight" a battle with "minimal" losses of troops, thereby confining the war to the European continent (a perspective the Europeans are fearful we might adopt). Or, they can serve as the "link" which couples the situation on the ground in Europe directly to the American central strategic systems, thereby making our overall policy of extended deterrence more credible.

It is this last possibility, of course, which Europeans envision as the chief utility of our theater weapons. They "couple" the United States to Europe unambiguously. The dominant characteristic of theater weapons, therefore, is their *political and diplomatic* utility, not their military utility.

In short, our overall posture in Europe is based on what has been called the "NATO Triad" of conventional, theater nuclear, and strategic nuclear forces. Thus, our military posture forms a seamless web, linking each element to the other. The overall purpose of this posture, in concert with our allies, is to provide the best defense for the least amount of money possible. This in turn is based on the doctrine of Flexible Response.

At the heart of this doctrine lies our force of theater nuclear weapons. Clearly, the short-range battlefield nuclear weapons serve little real purpose as a deterrent. The best that can be said of them is that they guarantee that the Soviets will not concentrate their forces in such numbers as to present a target. This is a valuable contribution, but we do not need vast numbers of short-range weapons to accomplish that goal. And it is absolutely foolish to speak, as some Army spokesmen do, of preparing to fight on a so-called "integrated battlefield," a battlefield poisoned by chemical weapons and incinerated by tactical nuclear weapons. Although this is the official line within the U.S. Army, it is not necessarily widely believed. Indeed, today's students at the Army's Command and Staff College spend only a few perfunctory hours studying battlefield nuclear weapons, as compared to the hundreds of hours devoted to the subject by their predecessors in the 1950s. Few take seriously the idea of fighting a tactical nuclear battle.

But while *short-range* battlefield nuclear weapons serve no real deterrent purpose, the force of *intermediate-range* theater weapons is vital to the policy of deterrence through Flexible Response. Ideally, until we have worked out better arms control for these weapons, they should be deployed in numbers just large enough to ensure the coupling of our strategic nuclear power to the alliance, but not so large as to suggest that they would or could be used to "win" a battle. They should be able to match overall Soviet capabilities. But no matter how many are deployed, or in what form, the chief value of these weapons is political, not military. They work as a deterrent and as a symbol of NATO solidarity, not as an effective defense against attack.

Soviet Theater Nuclear Weapons: A New Crisis in Confidence

The Soviet Union has deployed more than 300 new SS-20 intermediate range missiles. Work on this missile began in the mid-1970s, and it drew immediate notice from the European members of the alliance because it was seen as a new type of nuclear threat. Unlike previous Soviet theater nuclear weapons, the SS-20 is mobile, it has multiple warheads, and it has a relatively long range. This makes it possible for the Soviets to threaten all of Western Europe from well inside their own territory — even east of the Ural Mountains — while Europeans have no comparable capability of their own. At present, leaving aside the fighter-bombers which are increasingly obsolete, no European-based theater nuclear weapons can reach Russian territory. The Europeans are therefore fearful that the Soviets can threaten them from deep inside a sanctuary.

It is possible, of course, that a threatened attack by SS-20's could be countered with warheads from the American-based strategic arsenal, thereby upholding mutual deterrence. This is one of the arguments for having limited nuclear options available for our IBCMs, to counter or respond to a threatened attack on Europe.

But it is less the *military* situation than the *political* situation in NATO that has really raised the question of a response to the SS-20. It is fundamentally an issue of trust. The political situation reflects the long-standing fear by Europeans that the U.S. will not live up to its obligations, that its nuclear guarantee has been eroded by Soviet strength, and that the two superpowers might share a tacit interest in confining the horrors of war to European soil. The sources of this tension have long been present in the alliance, but ironically, they were fed by American arms control efforts.

The Vladivostok framework for SALT negotiated by President Ford in 1975, and the subsequent SALT II Treaty brought home by President Carter, attempted to come to grips with the long-range cruise missile. The Europeans had no real stake in the disposition of the air-launched cruise missile (ALCM), which was clearly an American strategic modernization program. But they were curious to explore the prospects of a ground-launched cruise missile (GLCM) or sea-launched cruise missile (SLCM) for theater use. This is not to suggest that Europeans were entirely united on this issue, because the implications of deployment were unclear. But Europeans of virtually every political stripe recognized that these weapons could have major consequences for the theater balance. To some, the weapons were frightening suggestions of "decoupling," either because they could be sent to sea where their value as symbols of American commitment would be less than ground-based weapons, or because they might be used to confine damage to Europe, or both. To others, the weapons were promising means to offset the SS-20. To all, however, they were weapons in which Europeans had a distinct interest.

However, President Carter's SALT II agreement disposed of GLCM and SLCM without consulting the allies.

The weapons were to be prohibited during the life of the Treaty Protocol, and strict provisions specified that the technology could not be transferred. Whether this was good or bad from the arms control perspective is not the real issue. The issue is that the U.S. once again appeared to be making a unilateral decision affecting European security, without even the courtesy of consultation.

The European Response: New Nuclear Weapons

This followed close on the heels of the neutron bomb fiasco. Jimmy Carter had promised we would develop the weapon if West German Chancellor Helmut Schmidt asked for it. He did. But Carter then refused to develop it. So Carter's SALT II Treaty only provoked more distrust among Europeans. It was in this context that the Germans became increasingly concerned about the possible implications of Soviet long-range theater nuclear forces, such as the SS-20 and the Backfire bomber. While the overall nuclear balance could be described as rough parity, the real question was again trust: whether the United States would live up to its word.

Chancellor Schmidt, in a 1977 speech before the International Institute for Strategic Studies in London, called attention to an impending shift in what he termed the "Eurostrategic" balance, and demanded that action be taken. In his view, strategic nuclear parity meant that any other disparity in the balance between NATO and the Warsaw Pact was magnified. The "balance of imbalances" — the idea of offsetting Soviet conventional forces with our nuclear forces — no longer existed, so deterrence in Europe could no longer be based on the assumption of American strategic superiority. America could not base its defense of Europe on the threat of a nuclear strike against the Soviets, since they would surely retaliate in kind. Chancellor Schmidt therefore laid out a solution based on a "two-track" approach, derived not surprisingly from a European emphases on the nuclear *deterrent* rather than the conventional *warfighting* component of Flexible Response.

Specifically, he suggested that arms reduction talks be opened — *in a new forum but within the overall SALT context* — aimed at eliminating the SS-20 threat. The wording is important, for it meant that overall progress on arms reductions could occur without necessarily involving the British and French nuclear forces which are independent of NATO, and without letting the U.S. decouple its theater weapons from its strategic arsenal.

The second component of Schmidt's suggestion was a weapons modernization program designed to give impetus to arms control talks and to provide an offsetting capability in the event that no agreement was reached. Schmidt believed that flexible response required us to fill any gap in the "spectrum of deterrence," and he feared that the SS-20 created a new gap which needed filling.

The Chancellor's speech led to two years of extremely delicate negotiations within the alliance. For domestic political reasons, it was crucial that Germany not carry the deployment burden alone. So Schmidt insisted on "nonsingularity" — he demanded that other nations accept some weapons as well.

The U.S. was not overly excited about the SS-20 threat, and so proposed that the best way to handle it lay in sea-launched cruise missiles which could not be pre-emptively targetted. We abandoned this track when we realized that sea-based weapons suggested decoupling to the Europeans. The submarines could always float away from a war rather than launching their weapons. We also realized that it would be very sensible from our perspective to substitute ground-launched cruise missiles for the fighter-bombers then in use, and to devote the aircraft exclusively to conventional warfighting rather than to nuclear weapons missions.

In the end, all NATO members agreed that it was best to substitute the new weapons for existing ones, to emphasize the need for talks, and to restate that we were taking these steps only in response to Soviet initiatives.

The culmination of this process was a decision in December, 1979, to plan for the eventual deployment of 572 new launchers, of which 464 were to be ground-launched cruise missiles and 108 were to be extended-range Pershing ballistic missiles. Every new launcher would replace an old one, so overall arms levels would remain the same. The cruise missiles received most of the attention, but it is the Pershings that alarm the Russians. These missiles can reach targets in the Soviet Union after only eight minutes of flight, compared to roughly three hours for the GLCM. This means that they can threaten a pre-emptive strike against Soviet assets. Particularly if they are based in Germany, and subject to any degree of German control, these weapons set Soviet planners' teeth on edge.

In light of the current controversy in Europe over the decision on Long-Range Theater Nuclear Forces (LRTNF), it is worthwhile to remember that it was Helmut Schmidt and *not* the U.S. who first wanted deployment.

Continuing Confusion

On balance, then, there has been substantial confusion in our policies concerning nuclear weapons in NATO. We have pledged to extend the strategic nuclear deterrent over Europe, but our credibility is shrinking at a time of overall parity. Our efforts at bilateral arms control with the Soviet Union have raised fears of two superpower gamesmen who will treat Europe as a pawn. Our efforts to provide further assurances of a close linkage between the U.S. and its allies have caused fears among those allies that we wish to confine a limited nuclear war to Europe. If we pledge to use our ICBMs to offset the possibility of intimidation from the SS-20, we are alternately accused of offering a pledge which can't be believed or of seeking to spare ourselves the consequences of warfare. If we agree to emplace nuclear weapons in Europe as a symbol of our resolve and as a means of linkage, we raise fears that they are either insufficient to provide linkage or excessive for any purpose other than confining the damage to our allies.

This is why arms control negotiations must be conducted with the recognition of tensions in the NATO alliance and why it is vital to remember several points that are often forgotten by those who wish to propagandize about alleged American efforts to increase the size of the theater nuclear stockpile.

First, the United States has quietly and without any precondition withdrawn 1,000 nuclear warheads from Europe, and has not replaced them. The arsenal is now about 15 percent smaller than it was three years ago. Best of all, the warheads that were withdrawn were for tactical or battlefield nuclear weapons, those which are simultaneously the most useless and the most destabilizing. Moreover, the alliance has recently announced its intention to withdraw an additional 1400 warheads over the next few years.

Second, the decision to deploy 572 long-range theater systems was made at the behest of our European allies and was part of an alliance-wide decision. It was *not* a unilateral American action. Moreover, deployment will *not* take place if arms control reduces overall theater nuclear forces in Europe.

Third, if arms control is unsuccessful and the alliance goes ahead with deployment, each of the 572 weapons will replace an existing missile. We will not add to the overall stockpile. The numbers will remain constant (and actually lower than before, thanks to the American withdrawal of the 1,000 warheads).

If there is one thing which characterizes our NATO alliance, it is constant political tension. This is understandable, for the various nations in NATO must ultimately hold different views of their national interests in various circumstances. Nonetheless, NATO has been a major success, the only alliance of its kind to exist for a prolonged period of peace. It has contributed much to American security. That's why it is vital that we pay attention to U.S.-European relations. But if we must be sensitive to European concerns, they in turn must be sensitive to American concerns. Chief among these is the issue which recurrently plagues the alliance — burden-sharing.

How can the NATO alliance, which has 200 million more people than the Warsaw Pact and which has a collective GNP some 235 percent greater, be in an inferior military position? Even though the NATO alliance has recently spent more on defense than the Warsaw Pact, it receives far less for its money. We cannot overlook the shortfall in our military situation, a shortfall which must be made up, but we should try to find more efficient ways to arrive at a common defense and we should make sure that each member of the alliance is pulling his own weight.

The Warsaw Pact can get more for its money than NATO, in part because it pays far less for its manpower than any NATO country, particularly the United States. Soviet soldiers make the equivalent of $8 per month, while a new recruit in the United States earns more than $500. Just as important, the Warsaw Pact benefits from common equipment, while NATO is characterized by a patchwork-quilt of weapons systems. To the extent that we can agree on common production, standardization, and so forth, we can benefit enormously. We can avoid overlaps and duplications and ensure that the soldiers of the alliance do not have to learn new procedures each time they operate near allied troops.

But more importantly, we must begin to question the degree to which our allies are sharing the burden of a common defense. While it is easy to overstate the extent to which some allies take a free ride on our efforts, we cannot and should not expect the United States to be the chief source of protection for an alliance of fifteen wealthy nations. For instance, although the United States has a GNP less than one-half that of the collective GNP for western Europe, and only 38 percent of the population, we have spent fully 65 percent of the total NATO budget over the past decade and fielded 45 percent of the troops. And at a time when we are increasing our defense effort from five to seven percent of our GNP, Canada is spending merely two percent and Japan — not a NATO member but an ally nonetheless — is spending one percent.

On the other hand, the Europeans were relatively more constant in their defense efforts than we were during the Vietnam decade of the 1960's and 1970's. Members of the alliance point out that they contribute such things as real estate for military bases, or substantial subsidies to less prosperous members of the alliance. And the alliance has collectively agreed to increase its efforts by three percent annually in real terms in the future, although various nations have already slipped from this pledge.

But the fact remains that we could and should improve the performance of the alliance, both by ensuring more equitable defense efforts and by pressing for a rational division of labor among the members. To the extent that each nation specializes in a given function, our overall efforts will be both less costly and more efficient. This merits particular attention in terms of defense efforts outside of the European continent. It is chiefly the United States which is currently bearing the brunt of the commitment to the Persian Gulf and Indian Ocean, although Britain and France have sent some naval vessels there. But it is chiefly the European members of the alliance and Japan who rely on oil from the Persian Gulf, not the United States.

Clearly, someone must ensure that the Persian Gulf remains free of Russian troops, for no member of the alliance would be well off — including the United States — if Persian Gulf oil supplies to Europe were interrupted. And just as clearly, the United States is a global power whereas the other members of NATO are not. But if we are to commit vast sums to the defense of the Persian Gulf, capitalizing on our unique assets as a global power, it may be sensible to divide labor in Europe a bit differently, perhaps by asking the Europeans to shoulder a greater proportion of the responsibility for reinforcements and reserves on the continent.

We are inextricably involved with the NATO alliance, and we should be. It provides an extraordinarily valuable supplement to our own defense efforts and it is the focus of our traditional diplomatic and economic interests. But just as clearly, there are and will be some differences of interest within NATO, as there must inevitably be in an association of free and sovereign nations.

We risk much if we do not pay attention to the kinds of issues which will increasingly dominate the alliance — differences of opinion over fundamental foreign policy issues.

It will be frustrating work to continually reassure allies who seem bent on thinking the worst of us no matter what we do. But we will risk far more if, in a fit of pique, we decide to let the allies steer their own course. We can no longer rely on the idea of an inviolate Fortress America. Ultimately, we are in NATO because it suits our own interests, and not simply for reasons of altruism. We need NATO as much as NATO needs us. It is a major military asset, and one well worth preserving.

5

Arms Control and American Security Policy

"An arms-control agreement must be assessed in terms of the reality of the times, in terms of the possible as much as the ideal."

With the phenomenal growth of grass roots organizations like Ground Zero, the Freeze Campaign, the Physicians for Social Responsibility, and others, arms control has re-entered the American political vocabulary. That is long overdue.

For too long, arms control was considered either irrelevant, excessively technical and boring, or both. Moreover, many people tended to view arms control as somehow the opposite of security policy. Nothing could be farther from the truth. Arms control is not a substitute for defense, and no one should believe that it is. A sound arms control policy must be based on a willingness to sustain a sound defense. But arms control is not the "enemy" of defense policy, either. Arms control efforts serve exactly the same goal as military deployments — the deterrence of war.

What is arms control? Simply stated, it is diplomacy which seeks to make the world safer by decreasing the likelihood of war. And like other forms of diplomacy, arms control is based on mutual give and take. It can involve both explicit communications and implicit or tacit bargaining — an action and response without formal acknowledgement. It can, and probably should, permit the parties to agree to common action for different purposes and benefits. The agenda for arms control negotiations should be unspecified at the outset in order to increase the chances of reaching agreement.

In the nuclear age, arms control can serve at least three different purposes. First and, most important, arms control must be aimed at fostering "crisis stability." In other words, it should ensure that in the event of an international crisis, such as the Soviet invasion of Afghanistan or the Soviet destruction of the South Korean civilian airliner, the chances of war between the nuclear powers do not increase. Too often, diplomatic crises have led to "accidental" wars. World War I is a classic example.

Crisis stability can be accomplished by a variety of means, ranging from provisions for consultation on a "hot line" to moratoria on weapons construction programs. But in whatever form, crisis stability reinforces mutual deterrence. It prevents tension from escalating into warfare.

A second goal of arms control is "arms race stability." This means, at the absolute minimum, that agreements should provide strong incentives not to build any more weapons. All parties should agree that enough is enough, and each should refrain from actions that would cause the other to become nervous and start producing new weapons. At the maximum, arms race stability should involve controls on qualitative improvements to existing weapons, and reductions in numbers. Arms race stability is good for the economy, as well as helping to preserve and bolster peace.

Finally, many people believe that arms control should seek to limit the damage that occurs in the event of conflict. Many of the Geneva conventions on various weapons are designed to make war slightly less horrible for those who suffer it — for example, agreements to ban the use of chemical or biological weapons. However, it is not at all clear that this is possible with nuclear weapons. Even the smallest nuclear war would be the worst imaginable catastrophe. There is a strong argument that believing we can limit damage from a nuclear war increases the chances of a nuclear exchange by making people think it would be tolerable.

The three goals — crisis stability, arms race stability and damage limitation — are sometimes hazy, and occasionally contradictory. For instance, crisis stability is served if an arms control agreement encourages nations to substitute invulnerable weapons for vulnerable ones. When a nation has an arsenal which cannot be destroyed in a first strike, mutual deterrence is increased. But at the moment, the most invulnerable nuclear weapons system — a strategic missile submarine — is enormously expensive and carries more net destructive power than most land-based missiles. Consequently, when the SALT I Treaty, signed in 1972, encouraged the United States and the Soviet Union to substitute submarine-launched missiles for landbased missiles, the goal of crisis stability was served while the goal of arms race stability suffered. In this case, it may have been a worthwhile tradeoff. The more Soviet leaders recognize the survivability of their nuclear force, the fewer incentives they have to launch in panic during a crisis.

The point is that arms control is not an immutable entity. It is a concept, shaped by process and context. An arms control agreement must be assessed in terms of the reality of the times, in terms of the possible as much as the ideal. To fall victim to utopian visions or to all-encompassing slogans is to risk letting the unachievable block the feasible, letting the best stand in the way of the good. The only valid test of an arms control agreement is this: Does it make the world safer? If so, it is worthwhile.

The Politics of Arms Control

Like it or not, arms control must ultimately be shaped in the world of politics. If we are to understand what we must do to achieve a sound arms control policy, we must be aware of the potential obstacles which stand in the way of that policy. What I am describing, of course, is not what one wishes were the case. Rather, it is the reality. Like reality in other areas, it can be accounted for once it is understood. I'd like to point out six such realities which should be understood.

The first such reality is that many people want to avoid the topic of nuclear arms control. Most people have a sensible attitude of repugnance toward weaponry, particularly weaponry of mass destruction. In fact, as I noted earlier, we would expect people to undergo a degree of "psychic numbing" when confronted with so horrible and inexplicable a thing as nuclear weapons.

Under the circumstances, many people would rather not think about the subject, or would prefer to do so (if at all) in terms of cliches. It is disturbing to meet people who build a career based on Dr. Strangelove, talking blithely about mega-deaths and limited nuclear war. But is just as disturbing to meet people who would rather not confront the topic simply for fear of getting their hands dirty. It may be comforting for people to remain above the fray, but this overlooks two things. First, we have real defense needs. Second, we cannot distinguish these needs from specious demands for more weaponry until we learn something about the subject. It's painful, but it's necessary. That's why grass-roots education groups are so useful, and why they should be encouraged to continue their efforts.

The concern we see expressed now in things like college courses on nuclear weapons is all to the good. It does not represent isolationism or a desire to escape reality, a charge often levelled by those who fear a return to the pacifist views of the 1930's. It represents instead a public taking a long overdue look at reality. Our policy will benefit.

A second political reality, however, is that attention spans are short. There are some astonishing parallels between the public debate over nuclear weapons today and a similar debate which took place in the late 1950's and early 1960's. It's eerie to hear history repeated so closely; it suggests that we failed to learn very much 20 years ago. Again, education campaigns can serve to keep attention alive.

A third reality is that people often think in terms of abstractions rather than specifics. That is useful in building consensus, a point well understood by politicians. But it means that when we try to hammer out a specific agreement involving precise terms, consensus can break down.

Recently, a Roper Organization survey resulted in some very dismaying but hardly surprising findings concerning public support for a nuclear freeze. The findings basically state that a freeze means different things to different people. Only 9 percent of those sampled oppose a freeze outright. But 36 percent favor a freeze if the Soviets first cut back their forces to a level equal to ours — in other words, reduce now, freeze later. Twenty percent, on the other hand, favor a freeze today, with reductions later. Fourteen percent favor a freeze if we first build up, and 10 percent favor a freeze after we have gained outright superiority.

In other words, at a given level of abstraction, it is fair to say that a huge number of Americans favor a freeze. Senator Kennedy has noted, for instance, that nearly 80 percent of Americans support the freeze resolution which he has coauthored. But when specific policies are put in the context of that freeze — policies which we would presumably pursue while negotiating the details of a freeze with the Russians — the consensus breaks down. This makes it very difficult to pursue a coherent arms control policy, much less to build a consensus which is meaningful rather than abstract.

A fourth reality is that *presidential style can be more important than substantive knowledge*. Politics and policy, after all, are to some extent based on imagery, and perhaps nowhere more than in diplomacy and leadership.

One of the tragedies of arms control in the past few years was President Carter's inability to recognize this point. He touched a number of fundamental chords in the American public during his 1976 campaign because of his sincerity and because we were looking, after years of Vietnam and Watergate, for something new. Moreover, he probably came to office with a better technical understanding of arms and arms control policy than any recent President. Yet his equivocation — and the widespread perception of his equivocation — resulted in a series of arms control failures.

Having criticized the Vladivostok accords as insufficiently tough — as not reducing force levels — he rushed into immediate negotiations with the Russians in March, 1977, only two months after coming to office. He looked overly eager. But worse, when he was rebuffed, he did not keep coming back. Rather, he accepted the Soviet refusal to consider his "deep cuts proposal," and ultimately wound up negotiating something strikingly similar to the very agreement he had campaigned against in 1976. He should have stuck to his guns, for we might have achieved more. The final tragedy, of course, was that by the time the SALT II Treaty was presented to the American public, the issue had become Jimmy Carter himself, and not arms control. He had no choice but to withdraw the Treaty from Senate consideration.

On the other hand, President Reagan understands better than most people the role of leadership style in setting the public agenda. He has been able to mobilize the public over and over again, to the bafflement of his critics who have not seen such uniquely personal leadership in many years. Yet he has done so with perhaps the least sophisticated grasp of arms and arms control policy of any President in fifty years. Many of his senior advisors on the subject are equally untrained.

What has been unfortunate is that the President's undeniable gifts of leadership have not been put to better and more consistent use in conveying to the public the urgency and complexity of arms control. His style — a combination of sincerity, charisma, and the devastating anecdote — has been spent on what he understands best, the need for accelerating defense spending and not on what he understands least — arms control. In both cases the style has too often conveyed only partial truths. This is particularly true in the way he has dealt with issues like the "window of vulnerability." Ironically, much of such talk actually degrades our real strength, and can weaken our image abroad rather than stimulate support for defense spending and his commitment to arms reduction at home.

The fifth reality is that ideology often overrides practicality. A few determined people with strong beliefs can disrupt the entire process of arms control. We saw this during consideration of several arms treaties, most recently the SALT II Treaty. A few people were simply unwilling to sign an agreement with the Russians, regardless of what was in it. Their views on communism were so strong that they were unable or unwilling to agree to a mutually beneficial accord.

The sixth and final political reality is obvious, and it follows from much of what I have said: Governments often resort to lip service and word games as a first response to pressure for a consensus.

Language is a vital element of diplomacy, often overriding substance. That's why negotiations can drag on for years over one or two words. When action is needed quickly, people seek a compromise over language. This is valuable, for it promotes bargaining. But it has some drawbacks as well.

It is the simple absence of the word "the" in U.N. Resolution 242, concerning a Middle East settlement, which both maximized support for that resolution and ensured that the issue of West Bank settlements would continue to be contentious years later. By referring to Israeli withdrawal from "occupied territories" rather than "the" occupied territories, the resolution was ensured of passage, but bound up in controversy over which portion of the territories would remain in Israeli hands.

The same holds true with any number of recent resolutions, declarations, or reports. The Catholic Bishops, for instance, negotiated long and hard over the use of the word "halt" rather than "freeze" in the second draft of their pastoral letter, and ultimately called for a halt to the testing, production and deployment of nuclear weapons. Even this was not enough to ensure consensus, however, so they ultimately adopted the word "curb" in their third draft. It let Bishops Gumbleton and O'Connor each think that he had won a victory. Now they have gone back to "halt."

The same word games were played in the recent Scowcroft Commission report on MX missiles. The report was drafted with Jesuitical logic and attention to grammar. In many respects, it was a revolutionary departure from previous government documents on arms control and strategic posture. But it was also a careful compromise. We are aware of the obvious — the virtual logrolling which requires 100 MX missiles in order to move to single-warhead systems.

We are not as aware that the report calls for modernizing our manned bombers, without specifying how we do so. In fact, the report states that there are "legitimate differences" over this question. It does not state that those differences are between two members of the Commission, James Schlesinger and Harold Brown. It simply avoids the hard choices.

All of this is necessary if we are to achieve consensus. But we have to ask what the price is in terms of mass public support. For instance, Minnesota Fourth District Congressman Bruce Vento in 1982 pointed out — correctly, in my view — that even-though he supported the freeze, diplomacy dictated that he vote for the Pershing and Cruise missiles until an agreement had been reached. As he put it, "We can't turn the allies on and off like a light switch."

Now all this makes sense to politicians and diplomats who understand and value consensus-building. But it carries with it a grave risk of backlash. The issue which first brought me into politics was my deep concern over the erosion of confidence in our government. This country simply cannot function if people look upon their government as an alien entity which is capable only of harming them. Yet that mood has been pervasive for years.

There is a risk — a grave risk, in my view — that if we in government spend more time trying to develop a consensus *within* the government than we do in trying to educate the country so that it can reach its *own* consensus, we will lose what little trust remains.

The Freeze, The Build-Down, and Arms Control

Many Americans have come to support (even if they disagree on the definition of) a comprehensive nuclear freeze. Some supporters see the freeze as a vehicle to get this country moving again in arms control. I share that view; the freeze campaign has proved to be extraordinarily useful in bringing home to politicians the necessity for action.

Other supporters view the freeze as their preferred negotiating posture at Geneva. In their view, no other alternative is acceptable, and only measures that directly support "a mutual and verifiable freeze on the testing, production and deployment of nuclear weapons" will be acceptable. I do not share that view.

As arms control *politics*, the freeze is a first-rate device. As arms control *policy*, however, it leaves much to be desired. Let me note a few of the reasons why.

First, it has become apparent that the freeze is an empty promise made by politicians. Too many people seem to want to have it both ways; they will support the freeze, and then support various strategic weapons programs, often because they believe that selective modernization is needed, and occasionally because of constituent pressures.

There was no more dramatic example of this than the actions of the House of Representatives in the Spring and Summer of 1983. After adopting a freeze resolution, the House promptly approved the MX missile on two occasions.

A second problem with the freeze as an arms control posture is that it simply will not be pursued by the Reagan administration, and probably by any other administration. The freeze resolution is just that — a resolution. It does not carry the force of law. Even the watered-down version passed by the House is unlikely to clear the Senate. Even if it were to pass in the Senate, it is unlikely that the President would incorporate it into his arms control talks in Geneva.

A third problem with the freeze is that it overlooks the fact that modernization can serve as a useful adjunct to rather than an enemy of arms control. Certainly, modernization has given us such threatening and destabilizing things as MIRV warheads. But it can also give us more rather than less reliance on second-strike weaponry, such as manned bombers or single-warhead "Midgetman" missiles. In short, if modernization is used to alter our force posture in a stablizing way, it should be undertaken, for that would serve the primary aim of arms control: crisis stability. A freeze would make this difficult, if not impossible.

Finally, let us remember that for nearly two decades, we have been slowly and painfully working out "rules of the road" with the Russians. Our negotiations have been based on those rules. To stop the current negotiations and attempt to reorient them so radically (the Russians, after all, prize modernization as much as anybody) risks the kind of substantial disruption which could undermine the potential for meaningful arms reduction.

Consequently, considerable attention has focused on an alternative arms control approach, the so-called "build-down." Championed by my Senate colleagues, Bill Cohen and Sam Nunn, this approach would envision exacting a severe penalty for any modernization by requiring that for each new warhead deployed, two be destroyed. Note that the emphasis is on warheads, not launchers. The focus in the build-down is where it properly belongs: On the nose-cone of a missile rather than the engine.

The build-down does not mandate new forces. It does not even give the superpowers an incentive to modernize, at least so long as they insist on such obsolete and destabilizing concepts as the multiple-warhead MX missile. What the build-down does do, however, is to recognize that modernization can occasionally be made the handmaid of crisis stability.

By demanding that for every new warhead built, two be taken down, the build-down incorporates into military planning two important principles. First, it effects actual reductions in arms levels — the purpose of the stalled START talks opened by President Reagan.

Second, the build-down concept will force our military planners and those in the Soviet Union to do something which they often fail to do. It will force them to think about nuclear weapons in two dimensions — offensive punch and defensive survivability. A build-down does this by making clear that new weapons do not come without a substantial price tag. As such, it substantially discourages the deployment of MIRV missiles, for each time a launcher with, say, ten warheads is deployed, twenty warheads must be discarded. This would mean that for each MX missile we build, we would be forced to destroy 20 Minuteman II missiles or seven Minuteman III missiles. It would cut our offensive power and make the remaining land-based missiles far more easy to target. Because of this kind of disincentive, the build-down would give us, for the first time, a self-policing system which strongly discourages the deployment of MIRV missiles. The benefits to arms control would be immense, both in terms of discouraging destabilizing systems and in terms of encouraging such stabilizing systems as the single-warhead "Midgetman."

Clearly, like the freeze, the build-down is no panacea. Also, like the freeze, it calls for a shift in the rules of the road, albeit not so radical a shift. But, by the same token, it is vital to understand that the build-down does not *compete* with the freeze. As Senator Gary Hart, a strong freeze advocate, has noted, the build-down can serve as a means by which to approach a freeze. If we freeze now — something which is simply not going to happen politically — we lock ourselves into a situation with excessive emphasis on MIRVs. If we pursue the START talks aimed at substantial reductions, we actually increase the vulnerability of allowed missiles by increasing the ratio of warheads to targets. If we pursue build-down, however, we can buy ourselves a roadmap in which the directions to arms control can be read in both English and Russian.

Space-Based Weapons

With language reminiscent of John F. Kennedy's post-Sputnik challenge to land a man on the moon by the end of the 1960's, President Reagan is urging the U.S. scientific community to win another race with the Soviet Union.

This time, though, the goals go far beyond national pride, exploration of a new frontier, and technological breakthroughs. This time, the stated goals are world peace and security.

Tragically, the President's challenge itself may have set the world running off in the opposite direction, moving us beyond reach of our goals.

Until now the two superpowers have had, ironically, a stake in each other's arsenal. As long as the Soviets knew that use of their nuclear weapons would invite horrible retaliation, their forces were held hostage.

The President, in fact, made that very point in his speech to the nation on March 23, 1982:

"(The Soviet Union's) vital interests and ours are inextricably linked — their safety and ours are one."

To put it bluntly, no one would push the button first because each side knows that no matter how sophisticated the weapon or how surprising the attack, warning systems would always provide enough time to launch a counter attack. And no matter how devastating was the attacker's force, the victim's response would be equally horrifying.

President Reagan's March 23 speech threatens this "inextricably linked" mutual security. His description of the program is comforting: a "means of rendering . . . nuclear weapons impotent and obsolete." Yet the message to the Soviets is ominous.

What the President is proposing is an impenetrable umbrella over the United States and our allies coupled with an arsenal of offensive weapons. Consider the Soviets' view of this strategy. It raises the Soviets' fears that we may want to use our nuclear arms against them while shielding ourselves from attack.

The great Soviet fear is that an ideological fringe in this country or one of our allies would be willing to launch a first strike nuclear attack during a crisis. If we ever reach the point where the planned defensive systems appear nearly ready, the Soviets may well be tempted to strike us while their forces are still effective — before our umbrella is fully raised.

These crises are not just in the imagination of nuclear weapons specialists. The Soviets and the U.S. nearly came to nuclear blows twice in the last 20 years — first in the Cuban Missile Crisis of 1962 and second during the 1973 Middle East War. Crises can cause nations to take risks. If technology adds to their fears, they will take more risks.

This technology, of course, is several years — even decades — away, as the President said in his speech. It is far from certain that effective systems can even be developed.

The technological breakthroughs of the last two decades, though, send a clear message to the Soviet Union. They cannot sit idly by, hoping that our research will be fruitless. If the President pushes ahead with his plan, the Soviets will be far less interested in limiting or reducing offensive weapons through negotiation.

The obvious Soviet strategy is to build enough weapons to overwhelm a defensive system; that is, have enough of a nuclear storehouse to beat a defensive system through sheer numbers.

Another is Soviet option to build better weapons — fight technology with technology: if the United States builds a defensive system, build a smarter nuclear weapon.

Both of these strategies require more Soviet warheads and in the Soviet system — where policy is not made by the public, but by a handful of all-powerful leaders — resources will quickly be earmarked to create an even larger and more powerful arsenal, regardless of the costs.

We frequently make the mistake in international relations of assuming that our intentions are obvious when often they are not. President Reagan is sincerely committed to arms limitations and reductions. His March 23 speech was an effort, I'm sure, to be conciliatory.

Yet, the Soviet Union is a determined and frightened opponent. An olive branch seen through the eyes of one person may look like a club in the eyes of another.

Comprehensive Test Ban Treaty

A ban on the testing of nuclear warheads is an elusive but extremely important goal. Technology advances are perhaps more threatening than increases in existing stockpiles. It is the "qualitative arms race" that has given us MIRV missiles, increased accuracy and the neutron bomb. But the qualitative arms race can be stopped if we can reach an agreement to stop *all* nuclear tests. The Partial Test Ban Treaty of 1963, signed by Britain, the U.S. and the Soviet Union, put an end to atmospheric testing of nuclear weapons. This reduced the long-term threat posed by fallout from tests, while making it difficult to test gigantic warheads. But underground testing has occurred on a regular basis since then. The signatories to the Treaty have conducted more than 700 underground tests since 1963. And nonsignatories — China, France, India, and perhaps others — have engaged in tests in the open atmosphere.

There was more progress when the Ford administration and the USSR agreed to a Threshold Test Ban Treaty (TTBT) in 1974 and the Peaceful Nuclear Explosives Treaty (PNET) in 1976. Each treaty prohibited the testing of nuclear explosives greater than 150 kilotons, whether for military or "peaceful" (i.e. excavation) purposes. This reduced the risks that radioactive materials would be vented from test sites, and put more constraints on the qualitative arms race. Neither treaty was formally ratified, although both countries have agreed informally to abide by the provisions. Ratification would still be a valuable step, since it would hold the Soviets in principle to on-site verification procedures, an unprecedented concession on their part. If the principle were then expanded to cover other treaties, it would significantly help arms control verification. But until the treaties are ratified, there will be no on-site inspection.

This is why I joined with a small bipartisan group of Senators in introducing a resolution on July 30, 1982, calling upon the President to submit the TTBT and the PNET agreements to the Senate for formal ratification. The treaties are valuable in their own right, and they open the way to an even more important arms control venture — a comprehensive test ban. A total ban on *all* nuclear testing will put a big crimp in the qualitative arms race, making it difficult if not impossible for the Soviets to develop new and more menacing warheads for the SS-18 and SS-20 missiles that cause so much concern. It will also be a clear signal to the rest of the world that the superpowers are serious about arms control. As long as this is in doubt, other nations have very little incentive to sign or abide by the Nuclear Nonproliferation Treaty. While it would be difficult to get existing nuclear-armed states such as China, France and India to agree initially to a comprehensive test ban treaty, we might later induce them to join as signatories. Even if we cannot, we will have reduced the potential threat posed by Soviet weapons, a major gain in its own right.

Negotiations on a Comprehensive Test Ban Treaty (CTBT) were suspended by the Carter Administration after the Soviet invasion of Afghanistan. Prior to this, however, talks were going well among the U.S., Britain and the Soviet Union. Agreement had been reached on the use of such innovative measures as on-site seismographs to ensure that no country was secretly exploding weapons underground.

Unfortunately, the Reagan administration has announced its intention not to resume CTBT negotiations. It prefers a different approach based on a 40 nation working group which has typically engaged more in rhetoric than in meaningful negotiations. Our July 30 resolution therefore also calls upon the President to resume negotiations.

Mutual and Balanced Force Reduction (MBFR) Talks

Multi-nation negotiations on Mutual and Balanced Force Reductions have been underway for quite some time. The MBFR talks are aimed at reducing the level of armaments within a geographic zone defined by East and West Germany, Czechoslovakia, Poland, and the Benelux countries.

All parties to the negotiations agree in principle that the superpowers should move some or all of their troops out of the zone and that regional forces should be stabilized at reduced levels. But exactly how? When specifics are brought up, the talks bog down. Partly, this is because the Warsaw Pact countries do not agree with the western countries about the size of the Warsaw Pact forces stationed in the zone. (For one thing, the Soviet forces do double duty — they are poised against Warsaw Pact rebels as much as against NATO.) But much of the difficulty is posed by the fundamental geographic asymmetries between the two sides. If Soviet forces pull out of the zone, they can come back relatively quickly because Russia is so close. If American forces return home, it is much more difficult for them to respond in time to an emergency.

An even more crucial question involves national subceilings on military forces within an overall limit. The Soviets are afraid that simple aggregates will permit the Germans — their enemies twice in this century — to build up a huge army while such countries as Holland cut back. They therefore wish to impose a subceiling on forces, such that no more than 50 percent of an alliance's troops can come from one country. But if the western countries agree to this — particularly if American forces are withdrawn — it will mean that the most effective army in Europe will be severely limited, and the smallest countries will have to increase their defense efforts.

Many of the issues in the MBFR talks go to the core of the NATO alliance and its problems. The proper results at MBFR could help to restore European confidence in the American guarantee, making further progress possible. What is needed is some way to break the logjams.

A number of independent proposals have recently surfaced. The most notable is the suggestion by four former government officials — McGeorge Bundy, Robert McNamara, George Kennan, and Gerard Smith — that the U.S. should make clear that it will not resort to the first use of nuclear weapons in the event of conflict in Europe.

The crux of their argument is that NATO's reliance on first use as part of the Flexible Response doctrine is not a good deterrent because it lacks credibility, and that it is militarily senseless in the event — however unlikely — of conflict. Moreover, they note that the reliance upon first use has led to theater nuclear forces that are awkward at best and dangerous at worst. Finally, they argue — as I have for years — that there is a clear and compelling case to believe that the greatest source of danger lies in NATO's comparative lack of general purpose forces.

The four officials are very careful to note that a pledge of no first use will not eliminate the need for at least some theater nuclear forces. Such forces are the linchpin of the alliance, since they provide the nuclear guarantee to Germany that is needed to keep deterrence credible. And they point out that a step like this cannot be taken without close coordination among all members of the alliance. But the heart of their argument is that, under current conditions, deterrence is weakened, not strengthened, by a continued reliance on the possibility of first use. As they put it:

> Once we escape from the need to plan a first use that is credible, we can escape also from many of the arguments that have led to assertions that all sorts of new nuclear capabilities are necessary to create or restore a capability for something called "escalation dominance."

Needless to say, the publication of this argument provoked immediate controversy. Both the Social Democratic and Christian Democratic parties in Germany quickly opposed it, asserting that it was the threat of first use that preserved deterrence in Europe. The same assertion was made by no less a serious advocate of arms control that former Vice President Walter Mondale. Mondale pointed out that we need vastly greater conventional forces to offset the Warsaw Pact armies before we can even consider backing away from first use, and that these forces will be very expensive. In Mondale's opinion, premature adoption of a no first use policy could weaken deterrence thereby making war more likely.

I believe it is possible, however, to combine a number of proposals and new initiatives in the MBFR context, and to make some serious progress toward security and arms control. I propose the following:

> 1. *Unilaterally withdraw a substantial proportion of the battlefield nuclear weapons still remaining in Europe.* There are too many of these weapons to suggest simple coupling of the American nuclear arsenal to NATO. They are too subject to pre-emption. And, they are not a credible defense tool since they would kill as many Europeans as they would enemy troops.
>
> This withdrawal will improve our own security and dramatically signal our commitment to arms reductions. We will still need a small number of battlefield weapons in Europe to ensure that Soviet troops do not feel comfortable massing for an attack.
>
> 2. *Condition further withdrawals of these systems on Soviet reciprocity.* If they draw down, we will draw down.
>
> 3. *After consulation with our allies, propose to the Soviets a pledge of no first use in return for two things:*

a. abandonment of their insistence on a 50 percent subceiling on troops from a given nation; and
b. a withdrawal of Warsaw Pact forces from the MBFR zone sufficient to give each side equal numbers. In other words, in return for a pledge of no first use, pull back forces to a point sufficient to overcome the current imbalance.

Under this agreement, NATO could have its cake and eat it too. It could, for the first time, match the Soviet armies with conventional forces, and it could do so without substantially increasing its own expenditures. This would in turn erase the rationale for first use, which was designed to compensate for weaknesses in the conventional forces of NATO. In short, deterrence would be enhanced, the nuclear threshold would be raised, and many of the more vexing problems involving theater nuclear forces would disappear.

This offer would have several conditions. First, it would have to be agreed that if the Soviets violated the terms of the agreement, for instance by putting large troop concentrations into the MBFR zone, the deal would be nullified. Second, we would have to make very clear to the Germans that this agreement would not undercut our willingness to respond if they were attacked with nuclear weapons. We would still need some forces for coupling purposes, as recognized by Bundy and his co-authors of the "no first use" proposal. But we could substantially cut the number of those weapons, both short-range and intermediate-range.

This idea is similar to one offered by Senator Sam Nunn; its outlines were suggested to me by Professor P. Terrence Hopmann at the University of Minnesota. I am encouraged that these two people, both recognized authorities on NATO, are thinking along these lines. It suggests that such a plan could work. And the refinement would appear to overcome the points raised by both Germany and Fritz Mondale.

Confidence-Building Measures

Every arms control venture contains a variety of "confidence-building measures," actions or agreements designed to reduce sources of suspicion, irritation or concern. For instance, it was agreed in the Conference on Security and Cooperation in Europe (the Helsinki Agreement) that each side would notify the other in advance of military maneuvers, so maneuvers would not be mistaken for an assault. Confidence-building measures can either support an existing agreement or they can exist on their own. In either event, the purpose is to avoid confusion about events that appear ambiguous or threatening.

One of the least appreciated but most threatening possibilities in the nuclear age is the prospect of "catalytic war" — a war which is started between two parties by a third party. Imagine, for instance, that a terrorist organization explodes a nuclear weapon in San Francisco. In the confusion, American leaders might believe (or be made to believe) that the Soviets had been responsible. The result could be war.

Another imaginable crisis is the misfiring of a nuclear weapon, a warhead released without authority because of mechanical failure or a breakdown in command. (This scenario was dramatically set forth in the 1962 novel *Fail Safe*, by Eugene Burdick and Harvey Wheeler, and later in the film of the same name.) The superpowers have gone to extraordinary lengths to guard against such an occurrence, and have developed highly complex physical interlocks — "positive action links" — which prevent unauthorized or accidental firing. Still, the possibility cannot be ignored. Neither can we ignore the possibility of an accidental launch by some nation other than the two superpowers. As nuclear proliferation increases, so does the chance of such an accident.

Confidence-building measures can help address such threats. *First*, we should continue our efforts to bring more nations into the Nuclear Nonproliferation Treaty. Although it is by no means a perfect instrument, it is a step in the right direction. As we get on with arms control ourselves, we increase the probability that others will do so.

Second, we should share with the Soviet Union, and possibly with other nuclear powers, information on weapons development programs by third parties. This may include information about our own weapons as well. A nuclear weapon built by the U.S. is likely to have unique and characteristic isotopes and trace elements that can serve as a "signature"; a relatively primitive weapon built by a terrorist organization is likely to have its own signature. If we can reach a common understanding with other responsible nuclear powers about the need for such data, we can make progress toward determining who is responsible for a given weapon.

Third, and perhaps most important, we should upgrade the hot line with Moscow and create a joint crisis and command center, staffed by Soviet and American officials. This idea was first suggested by the late Senator Henry Jackson and it now has been introduced as legislation by Senator Nunn. I have joined as a cosponsor.

A joint crisis and command center can act as a permanent, round-the-clock guardian. Like the Standing Consultative Commission, a Soviet-American task force created by the SALT I treaty and worth its weight in gold when ambiguous data arise, a joint crisis center can help prevent misunderstandings. In the event that a nuclear weapon is exploded, or in the event of suspicion that another nation has begun to test nuclear weapons, this center can provide assurances to both countries that neither has taken a hostile step against the other.

Lastly, we must expand our ability to verify arms control agreements. As a five-year veteran of the Senate Select Committee on Intelligence, I am deeply involved in this issue. Verification is the glue that holds any agreement together. It is especially important to remember that as the number of weapons decreases, verification will become *more*, not less important. As stockpiles go down, some people may be tempted to believe that "superiority" is once again obtainable. At some mutually reduced number of weapons — let's say 100 — it becomes possible to contemplate a disarming strike that would completely eliminate the other's ability to retaliate. Under these circumstances, crisis stability and verification are absolutely vital.

Thus far, we have relied on so-called "national technical means" of verification. That is a euphemism for surveillance by satellites and other intelligence sources. The problem is that some means can be evaded or countered. Additionally, we are entering a period when both our weapons technology and our arms control goals make verification more difficult. For example, cruise missiles are so small, and they serve so many purposes, that is is hard to obtain an accurate count on the number deployed or to determine whether they carry nuclear warheads rather than other warheads. As we start to address these "grey area" weapons, verification will be more of a challenge.

To a certain degree, we will have to accept the fact that comprehensive and absolute verification is simply impossible. This suggests one of two approaches. On the one hand, we could choose to make arms control agreements so comprehensive that modest violations will not matter in the final analysis. We would have to accept a degree of uncertainty about compliance in a variety of small areas, but we would gain essential confidence that the overall balance is preserved. The difficulty with this approach is that it essentially legitimizes "overkill." It is based on the presumption that there is so much redundancy in nuclear weapons that we are assured of stability. Large violations are presumably detectable; the small violations that cannot be detected presumably are of little consequence.

On the opposite tack, we can seek to draft arms control agreements that are deliberately limited in scope and duration. This would make verification easier, since a tightly drafted agreement focused on narrow issues, such as one class of weapon, can be monitored with some confidence. By lowering our sights we raise the probability that violations can be detected, since we need less information to evaluate compliance.

I prefer this more limited approach, since it engenders higher confidence and gives hope for reductions; it offers a move away from overkill and a move toward eventual disarmament. But it calls for a new orientation toward arms control. We tend to think big, always painting with broad strokes, always expecting big, bold moves from our President — especially when he meets with the head of the Soviet Union, and especially since they meet only rarely. The results of this approach have not been altogether good. Maybe it would be wiser to lessen our expectations, and go for smaller, more frequent, and more measurable achievements in arms control. A series of small and limited agreements involving particular problems can cumulatively result in more, and more effective, arms control than a large blanket agreement that is predicated on overkill.

We should also press for on-site verification, preferably by teams premanently stationed in the country to be monitored. This is not a panacea, since it is unlikely that any country would open the doors of its military installations to foreign officials. The Soviets in particular have a deeply ingrained penchant for secrecy. But some on-site verification is possible, and can be constructed narrowly to avoid revealing other secrets.

Arms Transfers

In 1980, worldwide arms transfers topped $20 billion. This represents a doubling of arms transfers over the decade of 1970–1980. The United States was the largest source of these transfers, followed closely by the Soviet Union, France and Britain. Most disturbingly, the arms flows are increasingly directed to the Third World, and they increasingly involve highly sophisticated modern weapons whether newly produced or captured elsewhere. At the moment, the U.S. accounts for 45 percent of the volume of arms transfers in the Third World.

The term "arms transfers" includes a variety of mechanisms, ranging from the government-to-government exchange of weapons to sales for profit by private companies. In the period immediately following World War II, most U.S. arms transfers involved bulk shipments of arms to our NATO allies in an effort to help them maintain their military commitments at a time of near economic collapse.

Subsequently, however, the U.S. began to act more and more as a broker in the actual sale of arms. It also issued a growing number of licenses to private merchants and weapons manufacturers to sell various weapons to a number of countries. Finally, we began to include in our foreign aid a category titled "International Security Assistance."

Increasingly, this has taken the form of credits and grants for arms sales. It is especially distrubing to me that the U.S. has recently raised the threshold that mandates Congressional approval of arms sales, that we have increased funds for security assistance by some 30 percent, and that we have done this at the same time that we cut back on development assistance — funds for such things as poverty relief and economic development.

Arms sales have become a medium of international politics, and have assumed an increasingly larger role in United States foreign policy. This has been prompted by several developments. President Nixon's "Guam Doctrine," a speech delivered on the Island of Guam in 1969, signalled an era of less direct U.S. involvement around the world. With the impetus of the Vietnam War, Nixon sought to retrench and to tell other nations that they would have to take care of their own military needs in a conflict. But this was balanced by his determination to provide those nations with arms: to build regional strongmen who presumably would be able to look after U.S. interests.

We also moved farther into the area of arms sales in reaction to a huge surge of direct and indirect Soviet involvement in the Third World. The Soviets use arms sales to bolster client states and to gain leverage over others. Typically, they will provide arms — for hard cash — only on the condition that Sovicty military advisors be allowed into the host country. The results have been all too clear in Africa, the Middle East and the Far East. The U.S. felt — mistakenly, I believe — that we needed to counter each and every instance of this Soviet involvement.

The Arab oil embargo, and the huge price rises that followed, convinced some people that we should help restore our balance of payments by selling arms to the new oil powers.

I believe the flow of arms to Third World countries is both dangerous and immoral. It has led us to overlook such things as the Symington amendment, prohibiting security assistance to countries that do not abide by the Nonproliferation Treaty. It has led us to be "even-handed," meaning that we are more willing to sell AWACS aircraft and F-15 fighters to unstable and uncommitted oil states than to account for the interests of our allies. It has led to the sadly odd spectacle of conflicts fought by nations that are armed on both sides with American weapons. It has fostered the notion which equates political stability with military might. And it has led to a denigration of what our foreign assistance should be used for: to implement a foreign policy aimed at helping developing nations engender political stability through economic, political and individual development.

Clearly, there will continue to be times when we need to transfer arms to another country, such as a close ally. And clearly, there will be times when our use of co-production agreements, which license other countries to produce U.S. weapons for their own use, will mean that U.S.-designed arms are being sold by others. But the flow of arms must stop, or at the very least slow down.

This can be done in part through unilateral restraints, the ability of the U.S. to curb its own arms sales impulses. Jimmy Carter came to the presidency determined to downgrade the role of arms sales in U.S. foreign policy. He drafted a series of regulations making it far tougher to transfer arms to other nations. Unfortunately, he then chose to ignore much of his own handiwork by interpreting the regulations so loosely that arms sales were not effectively cut back at all. He had the right idea, but he didn't follow through with it. We should begin to do so, rather than repealing the restrictions as President Reagan has done.

We should also resume talks with the Soviet Union on Conventional Arms Transfers (CAT). We conducted CAT negotiations for a full year, from 1977 to 1978, and made surprising headway on defining an agenda. But the talks broke down in the larger context of soured U.S. — Soviet relations. They should continue, with the aim of setting restraints on the kinds of technology that is transferred, the areas into which weapons are transferred, and so forth. We can begin with the easier items, such as restraints on weapons that are suitable for use by terrorists. Afterwards, we can start to tackle the harder issues. We can also work on an agreement to get clear restraints from the recipients of arms transfers.

Such talks, particularly if combined with our own self-imposed restraints, may help stanch the flow of arms. I admit I am skeptical that the French, in particular, will ever agree to negotiations, since they view arms sales as both a means of stimulating domestic employment and as a way to obtain or retain influence in the Third World. But even if the United States and Soviet Union reach only modest agreements, we will have made substantial progress on this threat to world security. Nations of the Third World are increasingly resorting to violence to settle old disputes or to distract their people from problems at home. And it is this growing level of conflict in the Third World that threatens to bring the Soviet Union and the United States into war as each intervenes on behalf of a client state. To the extent that CAT talks can help, they are a vital element of an overall arms control policy.

6 The Army: Reform and Renovation

"I am delighted to see the Army undertake the kind of doctrinal renaissance now occurring."

For many years, particularly during the 1970s, the United States Army was in serious trouble. It was plagued by racial tensions, poor morale, inept training, massive shortages of modern equipment, and leadership which seemed more intent on preserving a fiction of strength than on correcting some serious problems.

In the space of a few years, however, the Army has pulled itself out of a tailspin and become an exciting institution. While its problems are far from over, it is clearly on the road to recovery. This is due in no small measure to the superb leadership provided by the recently retired Chief of Staff, General Edward "Shy" Meyer. Both the Army and the nation owe him a debt which can't be repaid.

General Meyer recognized from the outset that the Army needed to do several things. First, it needed to overcome high attrition rates among careerists and to end the problems of low personnel quality and low morale which had plagued the service. Second, it needed to undertake a sustained program of modernization to make up for all the time lost during the Vietnam War, when funds went into operations rather than new equipment. Third, it needed to restructure its fighting doctrine in order to overcome a severe problem of sluggishness and to revive the officer corps' willingness to criticize established procedures in order to adapt to new circumstances. Finally, the Army needed to strike a balance among equally pressing needs: modernization, expansion, and readiness. No one category could be ignored, but none could be pursued to the detriment of the others, particularly as it became evident that the initial funding requests sought by the Reagan administration would not be sustained over the long haul.

General Meyer led the Army into what has been called a "renaissance" in all these areas, and more. Let me outline the current situation in terms of the challenges which faced Shy Meyer when he took the helm.

Army Personnel

In the personnel area, the gains have been impressive, to say the least. Part of this, of course, derives from the fact that more and more young people are choosing to enlist in the military, at least for one tour. But the Army has always done less well at recruiting than the other, more "glamorous" services. Yet because of a distinct shift in Army recruiting attitudes, the Army is now getting its share of the best and brightest young recruits. Shy Meyer was largely responsible for that shift in attitudes.

From his first day as Chief of Staff, he began to stress a point which is all too familiar to combat veterans, but not sufficiently appreciated by others: armies fight better if the troops have a high sense of esprit, cohesion, and loyalty to their comrades. Those characteristics cannot be rushed. They grow over time as people live, work and train together. A personnel policy which shifts soldiers around from unit to unit as though they were interchangeable parts of a machine is anti-cohesive. It may be "efficient" from the standpoint of an accountant, but it is unwise from the standpoint of a fighting person. As in competitive team sports, it is the *unit* rather than the individual which wins wars. And some units are better than others, because of better leadership or because of higher morale and cohesion.

The personnel management system within the Army had emphasized the notion that a military unit is simply a temporary address for a series of individuals. It relied on a system of individual-based training and individual replacement to fill the ranks of a unit.

If men are to fight as a unit, it helps if they are trained as a unit and if they remain together as long as possible. Some armies have used this system of training and replacement for centuries, with notable success. The most famous examples are the British system of raising "county regiments" and the Israeli system of calling up reserve units from a given region. Recruiting directly into a unit rather than into a general service branch can pay huge dividends in terms of fighting effectiveness. The "thin red line" which did so well for the British was by and large recruited from saloons, jails, and other places where one would hardly expect to find high quality personnel. But the combination of discipline and unit recruiting molded these recruits into fine soldiers.

For the past few years, the Army has begun to stress fundamental discipline once again, and it has experimented with a so-called "COHORT" program of unit recruitment. The acronym (the service seems unable to operate without acronyms) stands for what the Army wants to stress: cohesion, operational readiness, training. Under this system, the brigade will remain the tactical unit of major interest, but it will draw upon regiments which have a unique community base. Eventually, as many as 64 such regiments are planned, largely recruited from a given region and characterized by long tours of duty for the individual soldiers. Each regiment will be based at a given post — permitting soldiers and their families to put down roots — and will rotate overseas as a unit. The system of individual replacement will be de-emphasized to the degree possible. For instance, if an experienced soldier is assigned duty as a Drill Instructor for basic training, he will eventually return to his regiment. Of the 40 companies which have thus far been formed under the COHORT concept, every one is a major success. Morale is up, training is better, effectiveness has increased, and soldiers feel a strong sense of unit pride. The COHORT experiment thus far must be rated a major success. It should be continued.

New Equipment

The second area of interest, modernization, shows results which are just as impressive. A few years ago, General Meyer was so disturbed by the state of the Army that he referred to it as a "hollow" force. Today, the situation is vastly better. With the bulk of funding during the 1960s directed toward operations in Vietnam, and with the cutbacks which occurred in the 1970s, the Army was faced with widespread obsolescence of major items of equipment. The situation was so severe that when plans were made to modernize, one commonly heard of a "bow wave" of spending which would be required to buy new equipment across the board. The Army is now in that spending bow wave.

A number of items of equipment have drawn considerable criticism, some of it justified, some not. For instance, the M-1 "Abrams" tank is frequently criticized for being excessively expensive, unsafe, and prone to high rates of breakdown. In large measure, these claims are exaggerated. I am impressed by the number of experienced tankers from other countries who praise the M-1 as a major innovation in terms of agility, speed, and crew protection.

In terms of cost, the M-1 has a unit cost of roughly $1.7 million dollars. This is staggeringly high. On the other hand, the tank which is frequently offered as a replacement by critics, the M-60A3, has a unit cost of $1.3 million, and few of the advantages of the M-1. The point is that *any* main battle tank will be expensive. Moreover, a substantial portion of the cost hike in the M-1 derives not from mismanagement but rather from a diplomatic decision to retrofit the M-1 with a German-made 120 milimeter cannon. This decision, taken well after the tank design had been stabilized, imposed severe costs in order to redesign the turret. Total cost growth for the M-1, controlling for inflation, is roughly ten percent. This is nothing to be proud of, but it is respectable, given that much of the growth arose from NATO politics.

In terms of its design, every tank represents a set of tradeoffs among armor for crew protection, gun caliber for offensive punch, and speed for maneuver. The more the armor, the lower the speed. There is no one "ideal" tank design. Rather, each nation tends to emphasize a particular mix in its tanks.

The M-1 has drawn the most fire because it uses a radically innovative turbine engine to gain the speed necessary to offset its heavy armor. It is clearly the case that the turbine engine, like any innovation, has suffered problems. But some of the criticisms offered are specious. For instance, it is said that the high temperature of the turbine engine will provide a "signature" for heat-seeking anti-tank missiles. However, *any* internal combustion engine gives off enough heat to attract an infra-red seeker. More temperature won't affect this.

Still, the turbine engine — which gives undeniable advantages in terms of acceleration when it is working — is prone to breakdown. It probably makes sense to develop a more orthodox diesel engine for use until the turbine engine is totally reliable.

Some of the other criticisms are either invalid (such as the claim that the hydraulic fluid is uniquely flammable) or have been dealt with (such as the legitimate point that the transmission was initially subject to a high failure rate.) The balance of the criticisms, like the claim that the tank is unsafe because it uses plastic wiring which is toxic when burned, can all be laid at the door of strict Congressional insistence on "design-to-cost" criteria. In other words, Congress wanted to make sure that the tank would not exceed a given unit cost. By and large, it didn't. But when costs are held constant, something has to give.

On balance, therefore, the M-1 should not be dismissed so readily by its critics. It deserves support. But for every such success story, there is a flop. The "Sergeant York" air defense system is a good example.

There is a pressing need for air defense for our infantry divisions, particularly as Soviet Frontal Aviation becomes more capable of air-to-ground attacks. But the Sergeant York, which looked good on paper, is not the answer. The chief disadvantage is that the range of its guns is not sufficient to hit likely targets, which can stand off and fire missiles.

Just as bad, the M-2 and M-3 fighting vehicles, which are replacing the old M-113 armored personnel carriers, are substantially overpriced thanks to poor management. Moreover, the design concepts behind these vehicles are controversial, to say the least. Rather than looking on armored vehicles as "battlefield taxis" to move infantry to a place where they will fight dismounted, the Army has stressed that the infantry can and should fight from within the new vehicles. They are supposed to do so by firing automatic weapons through firing ports while the vehicle is on the move. Most observers do not expect that this will be particularly effective; instead, it is likely that the infantry will have to dismount, as before.

When they do, they will suffer from the fact that the vehicle carries only half as many infantry as the old M-113. The Army argues that the vehicle commander and the gunner who will fire the automatic cannon should be considered part of the squad, just as much as the foot soldiers who are carried inside. The Army points out that the vehicle will provide a base of fire while the dismounted infantry maneuver around the obstacle. This is true enough. But it fails to point out that even when everybody inside the vehicle is counted, the size of an infantry squad will nonetheless be reduced.

In large measure, the difficulties of the M-2 and M-3 derive from the fact that it is a hybrid concept. The vehicle's weaponry has been upgraded to the point where it is practically a tank in its own right. But it cannot have the armored protection of a tank, or it will lose speed. Instead, it must rely on aluminum armor, which is surrounded by controversy. Critics claim that aluminum armor is particularly susceptible to the shaped charges contained in a High Explosive Anti-Tank round, and that crew fatalities are likely to be higher in an aluminum vehicle than in a vehicle made of steel. The Army responds with three rebuttals. First, it states that the vehicle will rely on speed rather than armor for protection, and that speed requires the lighter weight of aluminum. Second, it asserts that tests do not demonstrate the spalling and burning effects claimed about aluminum armor. Finally, the Army argues that the principal purpose of a lightly armored vehicle is to protect the occupants from shell fragments and bullets, not heavy rounds. They note that *any* vehicle, whether aluminum or armor, which is hit by a HEAT round is likely to suffer appalling damage.

Doubtless, the controversy surrounding the M-2 and M-3 will continue unabated for years. The system is being built. One hopes that the Army will at least undertake such measures as the use of plastic anti-spalling shields which could be inserted at low cost. One also hopes that we never again face the situation where we must choose between leaving our troops with inadequate and obsolete equipment like the old M-113 or purchasing new equipment which may not do what it is supposed to do, and which costs far more than anybody ever expected.

Another proposed modernization program in which the Army is simply wrong is binary chemical weapons. The idea behind these devices is simple and superficially attractive, but ultimately dangerous.

Binary weapons rely upon two chemicals, each of which is harmless but which become toxic when mixed. The idea is that we can safely store the chemical elements and avoid the rise of contamination.

But is that any reason to spend billions of dollars adding to a chemical stockpile so huge that President Nixon unilaterally stopped U.S. production in 1969? What do we gain? For that matter, what do we do with the existing weapons? At heart, the argument about added "safety" is irrelevant, for it doesn't tell us why we need more of these weapons which, if ever used, will chiefly kill unprotected civilians.

The real hazard of chemical weapons comes in the simple threat of their use. A commander who even suspects that such weapons *might* be used must put his troops into bulky and hot protective suits. As soon as he does so, he loses efficiency, for troops cannot remain suited up for more than a few hours at maximum before they become exhausted.

The effect on units such as air ground crews — who must work rapidly to rearm and refuel our planes if we are to generate enough sorties — will be disastrous.

We can already force the Soviets to "suit up" simply by holding existing stocks of weapons and making it clear that we will retaliate in kind if attacked. (Indeed, they will be forced to suit up if they themselves use chemical weapons, since their troops must advance over contaminated territory.) So we gain nothing of military significance by spending billions on binaries.

We lose a great deal, however. First, tests have already revealed storage and reliability problems with binaries suggesting they aren't as "safe" as their proponents thought. Second, every dollar spent on these unneeded weapons is a dollar that can't be spent on needed devices like warning sensors or better protective gear.

I am very disapppointed that the Senate has repeatedly voted funding for binaries by the narrowest of margins. I hope we soon reverse this foolish and wasteful decision.

One other comment about the Army's modernization program should be made. When I first released my White Paper, I argued that the Army was in such sad shape that we should be careful where we invested desperately needed funds. In particular, given the poor state of readiness throughout the Army — at least six of the Army's 16 active divisions were rated unready to fight — I felt that it was foolish to keep all 16 divisions alive on paper, and I suggested de-activating the 7th Division at Ford Ord, and using the troops and equipment to bring our remaining divisions up to strength. I also strongly criticized then-current plans to expand the Army by two divisions, arguing that when there was not equipment enough to go around it was a waste of money to add two new divisions to the force.

Army personnel and modernization programs have been so successful in the past two years that all divisions are now acceptably ready, including the 7th Division. Therefore, we will remain with our 16-division Army which is augmented by 8 National Guard divisions, 9 independent brigades, and 21 reserve brigades. I continue to feel that the

Army should break out of the habit of pegging its force at some arbitrary number of divisions and holding to that size on paper, regardless of reality.

One of the reasons the Army is as strong as it is, and the 7th Division is once again up to strength, is that General Meyer made the deliberate decision not to expand the size of the Army, but rather to put his funds into modernization and readiness. It was a wise decision, and it paid off. It should not be undercut by talk of expansion from those who envision a larger rapid deployment force. We can't afford it. We don't need it. Only if we can create new combat divisions from existing manpower levels — by a more efficient structuring of our assets — will I support a growth in the Army's size.

The Air-Land Battle

The final area where the Army has made notable progress in the past few years is in the development of its fighting doctrine. For some time, critics have argued that the Army's operational doctrine has been based to an excessive degree on raw firepower. The critics point out that warfare is not simply a matter of shooting and toting up body counts. If it were, we would be unable to explain why forces which are numerically weaker and under-equipped have often decisively beaten larger and stronger opponents.

Good generalship emphasizes a combination of deft maneuver and tactical flexibility in order to destroy the cohesion of an enemy's battle plans. By using such "force multipliers" as surprise, confusion, and agility, a smaller force can beat a larger one, just as a small person trained in judo can turn a larger opponent's strength against himself.

At bottom, any combat is based on three functions: firepower, maneuver, and communications. Whether a small fire team is advancing on a position or an army corps is engaged in a theaterwide campaign, the three elements of combat will be present. In the view of the critics, the Army was reaching the point by the late 1970s where it had virtually forgotten maneuver and communications, and had emphasized firepower exclusively. When an emphasis on firepower is combined with a fixation on static linear defenses, a smart enemy will eventually breach the lines and defeat the defense.

In this respect, the critics are particularly concerned that the Soviets have adapted the fluidity of blitzkrieg warfare to their own purposes. As the Germans showed a stunned world in 1940, a small force which moves rapidly to turn an enemy's flanks and disorient his commanders can decisively beat a larger army.

The Germans relied on the use of terror, rapid shifts of units, and confusion to thoroughly disorient opposing French commanders, who were dug into static defenses along the Maginot Line. In particular, the Germans stressed attacking along the line at several points, penetrating wherever the opportunity presented itself, and getting behind their enemy's lines of communications. As B. H. Liddell-Hart, a prominent military theorist, has argued, the aim of such warfare is to uncouple the parts of an interdependent whole — to destroy the organizational unity of an army, permitting its separate elements to be beaten in series and in detail.

Rather than going after an enemy's main force to fight a "grand battle", the aim of maneuver-oriented warfare, or "the indirect approach" as Liddell-Hart terms it, is to seek the dislocation of the enemy. This can be done by forcing the enemy to turn his front, separate his forces to cover multiple attacks, or move from a favorable position in order to cover exposed rear areas. The basic technique involves flowing through his lines at whatever spot is available — something determined on the scene rather than anticipated in a rigid plan — and moving on his rear. When an army's supply lines, escape routes, or vital territory are vulnerable to raids by small units in the rear, it cannot ignore the threat and remain in the positions of its choice. Rather, it must move. When it moves, it is vulnerable.

If disorientation and dislocation cannot be achieved physically, they can be achieved psychologically by working on the mental picture carried in the mind of the enemy commander. Any move which carries with it surprise, shock and danger is likely to cause a commander to become disoriented. If another such move can be made before the enemy commander has had time to react to the first, still another before he has had time to react to the second, and so on, his battle plan will collapse and his army will lose its organic unity. The British demonstrated this technique during the recent Falklands campaign.

The essence of this approach involves a constant advance on alternative objectives from a single line of march. If an attacker can threaten two or more vital objectives — preferably in an enemy's rear — from a single line of advance, he forces the defender to guess where forces should be put. If, after defending forces have been sent to cover one objective, the attacker can immediately turn to another, the defender will soon be stretched thin or worn ragged. At that point, he is ready to be beaten.

Obviously, the key to this kind of warfare is excellent junior commanders, for the fluidity involved in "the indirect approach" calls for a high degree of initiative by the commander on the scene. This kind of battle cannot be planned to the last detail in advance. Rather, it must evolve as a function of the situation. Junior commanders — the ones trying to find weak spots in the line through which to pour, and alternative objectives to threaten — must be trusted to make the right decisions. Just as important, intelligence and communications must be excellent.

The Soviets — who tend to lack first-rate junior commanders willing to make independent decisions — have adapted the philosophy of the indirect approach to their own situation. Simply put, they intend to use such huge numbers against the entire length of an opposing line that, sooner or later, an opening will occur somewhere. When it does, the senior commander will flood his reserves through that hole, striking deep into the defender's rear and causing the kind of disorientation which ultimately wins battles. The effect will be the same, at least in theory.

This kind of approach to combat is by no means foreign to the American military tradition. Typically (and significantly), it has been used to best advantage by commanders who simply did not have the material resources to engage in a toe-to-toe slugging match, hoping to prevail through sheer brute strength. Stonewall Jackson's famed "foot cavalry" — rapidly moving light infantry — was able to keep an entire Union army off balance even though the largest unit he commanded was a corps. Equally, General Douglas MacArthur was a brilliant maneuver strategist, opting in the Pacific campaign of World War II to bypass enemy strongpoints, move on several possible objectives simultaneously, and constantly threaten Japanese lines of communication. The result was that the forces under MacArthur's command suffered fewer casualties in all of World War II than did the forces under General Eisenhower's command during the Battle of the Bulge alone.

As John Boyd, a fighter pilot turned maneuver theorist, argues, the fundamental notion behind "the indirect approach" is to attack the enemy's *plan* rather than his army per se. In this respect, ground warfare should not be focused on particular terrain objectives. Instead, terrain should be viewed as simply a *medium for maneuver* not an objective in its own right. Thus, the essence of the maneuver approach is the cavalry raid in the rear, not the frontal assault.

The critics like Colonel Boyd have performed a valuable service in calling for a return to maneuver warfare. Some of the less sophisticated critics, however, overlook the significance of our NATO commitment in limiting the degree to which this can be effective doctrine.

The Army's preference for fighting from fixed positions and relying on massive firepower is not altogether a matter of independent choice. As I noted earlier, it is vital to the NATO alliance that our security posture be based on "forward defense." This is inherently a linear defense. No German is likely to support a policy which would look upon the territory of the Federal Republic as a "medium for maneuver." Instead, he will see each city, each square kilometer, as inherently valuable in its own right and a "defense in depth" is not likely to prove acceptable to our NATO allies. Germany is adamant that its defense must occur as far forward as possible, and that we should not trade their space for our time.

Ironically, it is likely that this insistence on forward defense could result in the loss of more territory than if we shifted to a defense in depth, which would give us the chance to bring up reserves and repel an invader. T. N. Dupuy has made this case at length, arguing that a linear defense gives the attacker the initiative to pile up his forces in overwhelming numbers at a place of his choosing, thereby breaching the line. But what is sound military theory does not make for good alliance politics. And until the politics are resolved, it's unfair to criticize the U.S. Army for a posture which derives as much from NATO doctrine as anything.

It is also important to remember that traditional military doctrine holds that "defense is the stronger form of warfare." What this means is that while a defender sacrifices the initiative, he gains an enormous force multiplier simply by being able to dig in, prepare fields of fire, and fight from fixed positions. The rule of thumb holds that it takes at least three infantrymen to eliminate one soldier dug into a foxhole. Given the defensive orientation of the NATO alliance, it is not unreasonable to base operations on firepower and fixed lines rather than maneuver.

We must remember that much of the philosophy behind maneuver warfare is offensive in nature. It involves deep strikes into the enemy's rear; the seizure of the initiative; a willingness to delegate enormous responsibility to junior commanders. It suggests an offensive orientation fully as much as the blitzkrieg did. NATO's orientation is fundamentally defensive and this is more than a platitude. The European allies would be deeply concerned about a force posture which suggests a willingness on NATO's part to attack, for this would vastly heighten tensions and could tempt the Soviets to attack pre-emptively. The Europeans, living next to the Soviets, would feel the consequences most severely.

Finally, maneuver warfare involves substantial elements of the calculated risk. Clearly, any commander worth his salt must be willing to take such risks if he hopes to succeed. But it is understandable that many Army officers would prefer the inherent risk-minimization of a doctrine which keeps everything under the control of one commander. Particularly when our NATO posture calls for the use of nuclear weapons in the event of a battlefield defeat, it is often better to be conservative than to risk the unknown.

Nonetheless, it is clear that the maneuver school has much to say. The Army has been listening, and — more important — it has encouraged its junior officers to listen as well.

The result has been the development of a new doctrine called "Air-Land Battle." This doctrine, laid out in a new field manual on operations, is an extraordinary departure from the previous field manual. It rings with the rhetoric of maneuver theorists. For instance, it notes that warfare should be viewed in terms of a soccer game — many apparently independent units running around in response to a coherent plan — rather than a football game — one unit standing its ground on a line.

The Air Land Battle plan is based on several concepts. First, it emphasizes that the aim of combat is to disorient an enemy commander by disrupting his plan of battle. Therefore, it calls for operations which are phased to throw off the synchrony of an attack. Second, the plan argues that the real threat to our forces lies not with the initial assault wave, but with subsequent echelons which will follow later. Therefore, it calls for coordinated assaults along the main line of resistance and, simultaneously, on the second echelon. This is to be carried off by the use of highly coordinated tactical air strikes over what is termed the "extended battlefield." Third, the plan envisions the massive use of sensors and communications links to keep a corps commander abreast of events with "real-time data." The corps commander, if provided with enough data, will be able to anticipate his enemy's next move, and take the steps needed to disrupt it before it occurs. Finally, the concept hints at the desire of Army commanders to gain early authority for the use of tactical nuclear weapons in the event that their strategy — which is admittedly risky — should fail.

Clearly, the last point will be extremely controversial. It should be rejected out of hand. But much of the Air-Land

Battle concept has received favorable attention, particularly as the Army has begun to experiment with a "test-bed" division using large-scale exercises to develop the concept further.

I am delighted to see the Army undertake the kind of doctrinal renaissance now occurring. I am delighted as well to see the Army moving to decrease its "tooth-to-tail" ratio in order to help implement the Air-Land Battle. I called for just this undertaking in my White Paper.

But as much as the Army merits support for its imaginative development of battle doctrine,something which is clearly overdue, it also merits careful scrutiny. Is it possible that there is less here than meets the eye?

Remember that the essence of the maneuver concept is the delegation of responsibility to junior commanders, who help to evolve a battle plan as events move along rather than simply carrying out highly detailed orders. How does this square, rhetoric about soccer games notwithstanding, with a clear emphasis on greater centralization of authority in the corps commander? How does it square, for that matter, with a greater than ever reliance on highly sophisticated communications devices? Doesn't experience suggest that such devices will be vulnerable to disruption? Is the Air-Land Battle concept more than the mirror-image of Russian doctrine? Consider what would happen if the corps commander and his staff were killed or cut off. Rather than seeing the battle evolve as shaped by independent junior commanders, we would see our army disintegrate while it awaited orders that never come.

Nonetheless, I strongly support the kinds of thinking which is going on in the Army. I am delighted that, in a relatively short span of time, things have clearly improved.

7

The Naval Forces: Control of the Seas

"In short, our once unquestioned control of the seas is now in question, and the situation will grow worse as attrition and obsolescence further erode the Navy."

So long as the United States retains global interests and a maritime economy, we will remain dependent upon a strong navy. So long as the reality or the possibility of international conflict involving the security of those interests exist, we must be able to control the seas.

The missions of the Navy are classically referred to as "sea control," "power projection," and "presence." With a fleet of roughly 500 vessels, including noncombatants, spread over three major oceans, the U.S. Navy cannot rely on standing organizations for all its operations. Indeed, it has classically relied on task groups which can be pulled together from its various assets and tailored to the situation at hand.

Unfortunately, as we learned in the U-boat campaigns of World Wars I and II, it is far easier to accomplish sea denial than sea control. A continental power such as the Soviet Union can disrupt our sea lanes of communication with a relatively small navy. For the power which wishes to deny sea control, methods are suggested by the hit-and-run tactics of guerilla war. Indeed, 19th Century French naval officers suggested reliance upon a small fleet of convoy raiders to pursue a strategy which they called the "guerre de course" — hit and run.

But if a maritime power must devote considerable efforts to ensuring control of the seas, it gains immense advantage once control is assured, for it can move where and when it wishes, pursuing a defense as far from its shores as it might desire. Moreover, naval forces can be tailored with precision and are highly adaptable to diplomatic and crisis management missions. The U.S. Navy has been used for purposes of signalling diplomatic resolve in 177 out of 215 incidents since 1945 — incidents ranging from the Greek Civil War to the Soviet invasion of Afghanistan and the Central American "flag-showing" by President Reagan in mid'83.

Naval Vessels

The naval vessels used in task groups comprise a broad range of capabilities, and their design is crucial to the strength of a navy, for ships typically require at least four years to build, and they last 20 years or more. They must therefore have the growth potential to carry new weapons.

Aircraft carriers, of course, are the capital ships of the Navy and a unique American asset. They range in size from roughly 60,000 to 90,000 tons and carry up to 95 aircraft. We currently have a fleet of 13 carriers, of which three are nuclear powered. The oldest of our carriers dates from World War II, and the average age of all 13 is more than 20 years. One carrier is now in overhaul and one will continue to be for the foreseeable future. Two more nuclear-powered carriers are under construction, and up to two more are planned by the Reagan Administration.

Cruisers are the next largest vessel, ranging from roughly 9200 to 11,000 tons. Eight of our current fleet of 27 cruisers are nuclear-powered and carry massive arrays of anti-shipping and anti-aircraft missiles. In addition, construction is underway on the first four of an eventual class of at least 16 *Ticonderoga*-class "Aegis" cruisers, which are slated for an anti-aircraft role in high-intensity combat. The remainder of our cruisers carry a mix of anti-shipping and anti-aircraft defenses, and a few are armed with guns as well.

Destroyers are smaller than cruisers but extremely versatile. While some destroyers are designed for independent action and hence deploy a mixed arsenal of anti-air, anti-shipping and shore bombardment weapons, the bulk of our destroyer fleet specializes in either long-range or close-in anti-submarine operations. We currently deploy about 85 destroyers, with five more held in the Naval Reserve and three more under construction.

Carriers, cruisers, and destroyers are all "battle-group capable;" that is they are heavily armed, large, and designed with redundant systems in order to keep steaming when damaged. Frigates are our smallest surface combatants, and are the least expensive at $200 million per copy. They are relatively lightly armed with a small caliber gun and with sonars, anti-submarine weapons, and anti-ship weapons. Because they are not "battle-group capable", they are typically assigned to convoy and anti-submarine duty, or are paired off with other vessels to cover task groups.

Other surface vessels are perhaps less glamorous but no less important — tankers, oilers, mine sweepers, amphibious assault ships, patrol craft, and so forth.

Finally, there are the submarines, one of our most valuable assets. In addition to the strategic ballistic missile submarines, we currently deploy roughly 90 nuclear-powered attack submarines, and an additional 23 are authorized with even more planned for later. The advent of nuclear power — which permits unlimited submerged range and high speeds — has made today's submarine an awesome weapon. It can attack surface vessels with cruise missiles and torpedos, it can lay mines, and it has become a major anti-submarine weapon in its own right.

Task Groups

From this mix of vessels, the Navy puts together five kinds of task groups: carrier battle groups; surface action groups; amphibious task groups; underway replenishment groups; and convoys. Each such group can be created out of the various assets available, but each typically calls for certain kinds of vessels rather than others.

Classically, the Navy's principal emphasis has been on the carrier battle group. The naval campaigns of World War II in the Pacific indicated above all else that the aircraft carrier had become the most imporatant capital ship of modern times, supplanting the battleship. The chief advantage of aircraft carriers is that they can perform both sea control and power projection missions at great distances, for carrier-based aircraft can do battle with enemy fleets, seek out enemy submarines, and attack targets ashore.

Ironically, the weapon which first called the carrier into existence has become its chief nemesis — the airplane. Planes armed with missiles and bombs can launch massive salvos against our carriers, and will eventually be assured of getting a hit. What can be hit, in turn, can be sunk. This is hardly news to the Navy, of course. The landings at Anzio and Okinawa in World War II demonstrated that surface ships which are in the vicinity of land-based air power can be destroyed in huge numbers. The British experience in the Falklands in 1982 is the most recent illustration.

Given the high value of aircraft carriers to our Navy, we rely on several means of defense. First, each carrier is at the center of many overlapping layers of defense, starting with the combat air patrols flown by F-14 fighters and ending with the gun and missile systems carried aboard escort vessels. Second, each carrier is built to take maximum punishment. Critical compartments are buried deep in the ship's hull, where they are protected by layers of armor plating. Moreover, the ship is honeycombed with thousands of water-tight compartments, each of which can be sealed off from the other in the event of damage. Third, we tend to hold our carriers back in reserve. This is particularly important, for it is clear that the Soviets could maneuver very close to a carrier during peacetime, and then open up at point-blank range in the event of war. Carriers depend on distance for their security. When they are held back they can set up their layered defenses. If they are deployed forward, they become vulnerable.

Consequently, the Navy typically holds two aircraft carriers in reserve for each one it sends forward. This provides a rotation base for the ships deployed at sea as well as added security. Moreover, carriers do not sail alone. Instead, they are protected by battle groups which typically comprise four to six escort vessels — cruisers to defend against aircraft and cruise missiles, destroyers to defend against submarines, and submarines to add further capability. Moreover, at least two of a carrier's five squadrons of combat aircraft are comprised of F-14 fighters with long-range Phoenix missiles to provide a potent air umbrella over the task force. Finally, it has become customary to create task groups of two carriers plus escort vessels in order to provide around-the-clock operations without unduly stressing air crews.

The State of our Navy

What this suggests, of course, is that many of the decisions which go into determining the size of our Navy reflect initial decisions about the number of aircraft carriers which we must deploy. A *balanced* fleet is one which contains sufficient numbers of highly capable surface combatants to provide battle groups for our carriers. So long as we must rely on aircraft carriers we must continue to build such expensive vessels as guided-missile cruisers with which to protect those carriers. In order to perform their missions, these vessels must be "battle group capable." They must be able to go in harm's way. While the Navy, like all other services, should look for ways to combine its vessels in a "high-low" mix, needed investments in our maritime capability will be very expensive.

A few trends will illustrate why. Our Navy was comprised of more than 900 vessels at the end of the Vietnam war. But today, because of the mass retirement of entire classes of ships built before and during World War II, and because of our failure to build substitutes, that number is nearly halved. The 20 aircraft carriers in 1965 are down to 13, one of which is in overhaul and out of service. About 190 vessels are surface combatants — frigates, destroyers, and cruisers — and many of these are due for retirement. In the 1980s, we will retire two more classes of destroyers, one of frigates, and one of cruisers.

This fleet, which can be structured into no more than 12 carrier battle groups at any one time, must effectively cover three huge oceans — the Atlantic, the Pacific, and the Indian — as well as the Caribbean and the Mediterranean. At the same time, the demands of maintenance, overhaul, and ordinary military prudence require that we hold two or more carriers in reserve for each that is forward deployed. With two carriers normally assigned to the 7th Fleet in the western Pacific, two to the 6th Fleet in the Mediterranean, and the balance in the 2nd Fleet on our Atlantic seaboard and the 3rd Fleet in California, our Navy is stretched exceedingly thin.

Indeed we have been forced for a number of years to rely on a "swing" strategy to complement our "one and one-half war" policy. Under the swing concept, we will shift the bulk of our assets from one theater to another as required in a crisis, for instance from the Pacific to NATO. This, of course, will leave our allies essentially unprotected, for it is to our navy that Japan and others look for protection.

Unfortunately, things have worsened in recent years. When we decided to station two carrier task groups in the Indian Ocean following the Soviet invasion of Afghanistan, we were forced to pull one group out of the Mediterranean and one out of the Western Pacific, severely straining our commitments to NATO and to Japan. Moreover; the operating tempo severely strained plant and machinery. Still worse, the steaming distances to the Indian Ocean are so great that the battle groups now stationed there have remained deployed on station, working around the clock, for record lengths of time. This has put a severe strain on men and equipment which is exacerbated as sailors decide to resign from the Navy and as equipment fails under the strains of continued use at a high tempo.

The easiest way to understand the current situation is to note that Admiral Thomas "Chick" Hayward, the former Chief of Naval Operations, has stated that we have "a one-and-one-half ocean Navy to meet a three-ocean requirement." More disturbingly, Admiral Hayward testified in 1981 that "today, for the first time in anyone's recollection, the U.S. Navy is unable fully to meet its *peactime* commitments." In short, our once unquestioned control of the seas is now in question, and the situation will grow worse as attrition and obsolescence further erode the Navy.

A Continental Power With a Real Navy

Shortly after World War II, the USSR decided that the primary function of its navy should be to defend Soviet territory against the great posed by our carriers. As a result, their navy was structured as a coastal defense force with large numbers of small ships, each armed with anti-ship cruise missiles. This gave the Soviets a crude equivalent of our carrier attack capabilities. They had acquired, for far less money, a military force designed to strike over long distances. Like the Japanese use of Kamikaze aircraft, the Soviet investment in cruise missiles was an attempt to provide long-range air-based weapons without investing in expensive aircraft carriers. This inexpensive but effective coastal defense force was augmented by increasing numbers of Soviet submarines, designed to deny us the use of the seas.

In recent years, however, the Soviet Navy has undergone a dramatic transformation. While they still rely on coastal defense vessels and cruise missiles, their Navy is now an ocean-going force which is both modern and impressive. The Soviets have some 652 *major* vessels — submarines, aircraft carriers, cruisers, destroyers, frigates and amphibious vessels — backed up by 935 small combatants and 65 auxiliaries. In terms of open-ocean warfare, the Soviets now have 43 percent more vessels (and more modern vessels) than we do. And this is the navy not of a maritime nation, but of a continental power.

The Soviet Navy is neither primitive nor does it rely on obsolete technology. The Soviets have recently built a highly capable nuclear-powered cruiser. Their two most capable aircraft carriers are deploying vertical-takeoff aircraft. Their recent Alpha-class submarine has a titanium hull which permits it to dive deeper and run faster than any U.S. submarine. They have four new classes of major combatants now under development. Finally, the Soviet fleet is backed up by roughly 300 Backfire bombers armed with long-range cruise missiles designed to attack our fleet.

The Soviet Navy now presents a major challenge in an area which was formerly a United States preserve — the open ocean. Their heavy investment in anti-ship cruise missiles gives them an impressive long-range capability, first demonstrated in 1967 when the Israeli destroyer *Elath* was sunk in a matter of minutes by four Soviet Styx missiles fired from Egyptian patrol boats. The growth of satellite and aerial reconnaissance makes it very difficult for U.S. battle fleets to hide in the open ocean. Under today's conditions, what can be found can be attacked from long range. And what can be attacked can quickly be crippled or sunk, a point brought home once again in the Falkland's campaign.

The momentum of naval modernization programs unquestionably favors the Soviets. They are out-investing us at a rate of two to one in major combatants, five to one in submarines, and twenty-nine to one in other construction. They have built three *Kiev*-class carriers, and are apparently planning a full-size aircraft carrier soon. Their *Kirov*-class cruiser is twice as large as any American cruiser.

If continued at this pace, their efforts will give them an increase of 75 percent in new vessels by the year 2000. Each United States vessel can now be targeted by several Soviet surface vessels and submarines firing long-range cruise missiles and torpedoes, and the Soviet advantage in highly capable platforms will become greater over time.

Not only is our fleet threatened, but our ability to resupply allies, to sustain ground operations overseas, or to engage in vital commerce is now jeopardized. The huge Soviet investment in some 250 attack submarines gives them nearly five times as many submarines as the Germans had at the start of Wrold War II — a war which saw the Germans sink 15.5 million tons of shipping.

The Soviet naval posture is particularly menacing because it suggests — like other Soviet military forces — an emphasis on preemption. Soviet vessels are designed more for rapid initial salvos than for endurance. The tactics which they practice in their OKEAN exercises emphasize encirclement at long range followed by rapid bombardments from all directions to maximize surprise and shock. Once a nation's combat vessels are crippled by such an attack, its merchants vessels and convoys can be attacked at will. Finally, it is worthwhile to note that the Soviet navy now enjoys — for the first time — a substantial amphibious assault capability backed up by shore bombardment vessels. Their *Ivan Rogoff*-class amphibious ships are supplemented by an impressive array of modern assault craft. When considered in conjunction with their concommitant emphasis on airborne forces — they now deploy seven heavily-armed divisions — it is clear that the Soviets are taking very seriously the concept of power projection, something which is altogether unprecedented for a continental power.

In short, the Soviet Navy has become a fully capable instrument in support of classic Soviet and Russian geopolitical goals: a drive for the oceans, potential control of strategic chokepoints and worldwide resource flows, and actions in support of Third World insurgents. At the same time, the Soviet Union can offer a substantial challenge to our own Navy, and hence to our status as a maritime power.

These numbers do not tell the whole story, of course, and it is foolish to compare naval strengths simply by comparing vessels. The Soviets face a number of disadvantages. For instance, they are basically land-locked and must divide their navy among four widely-separated fleets. Soviet ocean-access requires travel through well-known and easily-patrolled geographic chokepoints. Moreover, while their vessels tend to be faster than ours, they have a shorter patrol duration. While they are more heavily armed, they have an inferior magazine capacity. In other words, the Soviet Navy is not necessarily superior to our own. But their navy — for the first time in history — presents a severe challenge to our fleet, a challenge which is compounded by the self-imposed decline in our capabilities which I have already described, and by the fact that sea denial is more easily accomplished than sea control.

The Future

For a nation which must rely on the oceans and on a maritime strategy, this is a severe threat. We cannot hope to match the Soviets gun for gun and man for man in ground warfare. That is their logical area of strength. We should be able to enjoy an offsetting advantage in our most logical area of strength, the Navy.

To resolve this challenge, the Reagan Administration — with the general support of Congress — is engaged in a major buildup of the Navy, reversing a decline which started years ago and which was accentuated under President Carter. President Carter had originally viewed the Navy as little more than a patrol force designed to provide needed supplies to our ground forces in a short but intense war in Europe, an approach he later reversed.

The numbers and the costs of making up lost time are staggering. To maintain a fleet of 450 surface vessels and 90 submarines, we must build 17 ships per year. To expand to a 600-ship navy, which has been cited as a goal by this Administration, we must build 25 vessels per year. If we are to hold our naval aircraft at current numbers, we must build at least 330 per year just to replace those which are retired or which are lost in training accidents.

But there is a side to U.S. Navy strength that is as serious a problem as vessel inferiority. The manpower situation in the Navy is troubling. Far too many sailors are deciding to leave the service rather than face long separations from their families, separations which are made worse by round-the-clock working hours seven days a week. Not long ago, for instance, we found it impossible to send the oiler *Canisteo* to sea for two weeks because its crew was so short-handed that the ship could not safely sail. We have so few senior petty officers that a mobilization would severely strain our ability to man our ships. And any Congressional caseworker can tell you heart-rending stories from constituents that vary from chemical dependency to more serious offenses.

But to say that the Navy needs to be strengthened does not answer the question how? What threats do we consider most severe? What kind of vessels do we need to purchase? Can we get better performance for the same money — or for less money? And finally, can we realistically expect to deploy more ships without resorting to the draft in order to obtain the manpower necessary?

Some Guidelines for Growth

In addressing these questions, there are a few general points which must be kept in mind. First, there has been a genuine resurgence in the importance of surface warfare vessels thanks to a number of technological innovations over the past few years. The development of long-range anti-ship cruise missiles makes every surface combatant a significant threat to many classes of ships, regardless of size. The impressive gains in anti-aircraft and anti-cruise missile capability represented by the "Aegis" missile control system have made surface vessels more survivable. And the ability of even frigates to carry helicopters, vertical take-off (VSTOL) aircraft, and towed-array sonar systems has extended both the reach and the anti-submarine capabilities of the surface fleet. In other words, despite the predictions of some analysts a few years ago, surface ships will survive as vital elements of a navy.

But this does not mean that we should put all our eggs in that basket. The growth of cruise missile and VSTOL capability threatens as much as it enhances the surface vessel, and it would therefore be unwise to build only limited numbers of highly expensive vessels. Numbers count as much as quality. Although there have been gains in the area of passive protection (armor design and compartmentalization), it is important to remember that ships can be put out of action even if they are not sunk.

In 1972, for instance, the USS *Worden* was struck by a Shrike anti-radiation missile accidentally launched by a sister ship. The missile exploded directly over the *Worden*'s superstructure, killing and injuring a number of people. That single strike put the *Worden* completely out of action for thirty minutes. Although the *Worden* was not taking the defensive measures which would characterize a crisis or a wartime situation, the incident still shows the awesome destructiveness of new naval weapons.

Several years later, the U.S.S. *Belknap*, a cruiser, was involved in a collision. The resulting fire virtually destroyed the vessel. As recently as the summer of 1982, we were reminded of the potential vulnerability of surface vessels when several British ships were lost to fires caused by missiles and bombs during the Falklands campaign.

Unfortunately, peacetime economies have led ship designers to try to find a way to provide protection, speed, and capability within tight budgets. Too often, the answer has been aluminum armor, a real menace at sea. Although many people have either overrated or misunderstood the capabilities of surface-to-surface and air-to-surface missiles, the fact is that in a barrage attack some missiles are bound to get through. If they do, they will cause devastation against today's lightly armored ships.

A second point to bear in mind is that naval vessels represent a massive and long-term capital investment and must be built with the future in mind. A ship which is ordered today will last until well into the next century. It is therefore vital that our ships be built with growth potential since they will outlast the weapons suites they carry. Moreover, our ships must be built with adequate protection, with seakeeping ability, and with an eye toward the trade-offs between performance and versatility. We need a Navy which is large enough and flexible enough to cover huge areas, but strong enough to obtain preponderance where it is needed.

Third, the Navy must remain a balanced fleet. We will continue to rely on aircraft carriers for the foreseeable future, and we must ensure that our carriers and our surface combatants complement each other. Moreover, we must ensure that we can put together surface action groups, replenishment groups, amphibious task groups and convoys as needed. For these reasons we cannot afford to overemphasize any particular vessel type, no matter how attractive such a ship might be when examined by itself.

While we should not become slaves to expensive high-technology weapons, we must always keep in mind the need to balance our fleet. It is as dangerous to overemphasize the "low" side of a high-low mix as it is to overemphasize the "high" side. Frigates are simply incapable of performing some missions in some environments, regardless of how they are armed. Extremists who argue that we can save money simply by substituting frigates for other more expensive vessels overlook this point. This is not to suggest that we can't find lower-cost alternatives to our current destroyers and cruisers. It simply suggests that we must look in the right place if we wish to retain a balanced fleet with long-term growth potential.

With these points in mind, it becomes necessary to explore the role which we expect our Navy to play in the next two decades. This in turn requires an estimation of the most likely threats which the Navy would face in the event of a crisis. Fundamentally, this reduces to two questions. *First*, how do we deal with the Soviet threat to our sea control capabilities? And, *second*, to what extent should we seek to deal with the Soviet growth in power projection capabilities at a time when international crises may increase, particularly in the Third World? Our answer to these questions will determine the extent to which we structure our surface combatants for battle group action or for independent action. It is imperative that these distinctions not be overdrawn; our attention must focus on changes at the margin rather than radical reorientations of the Navy, for the decisions we make are decisions with which we will live for twenty to thirty years and we cannot afford an imbalanced fleet.

Dense Threat vs. Distributed Threat

The Navy has traditionally taken the view that the best way to establish sea control when challenged is to destroy the enemy's main fleet and naval facilities, and to do so as far forward as possible. In other words, the fight should be carried to the opponent's home waters as soon as possible, and his fleet put out of action. In this view, any other strategy — for instance, a series of small engagements over time — is ultimately more costly and more risky. Moreover, an offensive orientation presumably puts the Soviets on the defensive, letting us pen them up behind the chokepoints which separate their fleets. This approach was summarized by Alfred Thayer Mahan's dictum that "the enemy must not be fended off but smitten down."

Such an approach to sea control would suggest that the Navy should be structured, as it is, around extremely powerful battle groups which are capable of *overcoming a dense threat* in or near the home waters of the Soviet Union. Some estimates suggest we would need four carrier battle groups for the Norwegian Sea alone. The corollary threat to our sea lanes of communication cannot be ignored, of course, and we should have sufficient anti-submarine and blockading forces to protect our convoys, replenishment groups, and amphibious task forces. But the main emphasis is on a high capability fleet aimed at quickly neutralizing an enemy's navy. If carried to the extreme (and no one in the Navy has done so), it would suggest that our immediate emphasis should be on expensive but highly capable strike and anti-air cruisers alone.

A second approach to sea control, however, holds that such intense action as destruction of this enemy's fleet in or near its home waters is unlikely to succeed. At the minimum, the huge concentrations of power required would invite preemption, possibly by tactical nuclear weapons. At the maximum, such high-intensity combat as is suggested by massive naval engagements in or near Soviet home waters might risk escalation to strategic weaponry.

While not downplaying the need for highly capable anti-air and strike capabilities, the alternative approach would focus upon retaining sea control in the face of a "*distributed threat*" — wide dispersions of Soviet submarines and other assets — through local self-defense, through control of the chokepoints which bottle up the Soviet fleet in its home waters, and through direct engagements of main fleets only where absolutely required. If carried to its extreme (and only a few have done so), this view would suggest that our immediate emphasis should be on large numbers of inexpensive vessels, mines, and so forth.

The first view focuses our planning around a classic wartime scenario, and calls for reasserting sea control as quickly as possible. The second view is in some respects more pessimistic and calls for obtaining sea control only where it is directly needed. The first view focuses on pulling together our Navy into a concentrated fleet for high-intensity combat. The second view focuses on distributing our fleet for independent actions throughout a wide variety of theaters. In my view, the second approach is preferable since it permits us to cover our "three ocean requirement" with the greatest assurance of success, and does not gamble everything on a decisive engagement. Moreover, it reflects our global interests by permitting us a relatively even distribution of forces (which can always be reconcentrated as needed) around the world.

The second question — how to deal with Soviet power projection and Third World crises — is answered much like the first. The traditional answer is to emphasize highly capable battle groups which can be concentrated to neutralize the main Soviet fleet, and thereafter deal with other Soviet threats. The alternate view suggests creating new classes of strike vessels that can operate independently to counter amphibious assaults wherever they occur, while leaving the battle groups free to assert sea control on a local basis.

In the very short term, the Navy's suggested building program is designed to stabilize the decline in our naval power while retaining a balanced fleet. The core of this balanced fleet is derived from our 12 active aircraft carriers which, in the Navy's view, should ideally be protected by 24 CG-47 "Aegis" anti-air cruisers (two per carrier) and 48 other vessels, primarily destroyers. We have begun the construction of the "Aegis" cruiser class, and four are now underway. But it remains unclear whether we will build two per carrier. Simultaneously, the Navy has begun construction of a new class of destroyer, formerly labelled the "DDGX," and now called the DDG-51. These destroyers will replace the three classes which are due to retire over the next two decades, and will complement the DD-963 and DD-993 destroyers which have recently joined the fleet.

The building programs for the CG-47 and DDG-51 are necessary additions to the fleet, but the question is *how* *many* we should build as compared to alternative vessels. The DDG-51 is designed to be a low-cost vessel capable of deploying the Aegis anti-air missile system and the long-range Tomahawk anti-ship missiles. The Navy would prefer that it be built in sufficient numbers — fifty or more — to provide coverage for the carrier battle groups, the underway replenishment groups, the amphibious assault groups, and the convoys. The Congressional Budget Office has suggested that the total cost for a package of 24 CG-47 Aegis cruisers and 50 DDG-51 destroyers will be roughly $33 billion in 1980 dollars. This sum will provide us with 74 vessels designed around the demands of a carrier battle group.

As an alternative, the CBO has proposed that the Navy explore a different class of vessel, the "DDGY," which will complement but not replace the DDG-51. Such a vessel would be designed more for *independent* actions — perhaps in concert with strike cruisers, frigates, or the revived battleships — than for carrier battle group action. While roughly the same size as the DDG-51 it would deploy guns, Tomahawk cruise missiles, towed-array sonars, and the LAMPS III anti-submarine helicopter. If the Navy were to emphasize independent actions rather than carrier battle group actions as I believe it should, the CBO estimates that the same $33 billion which is now planned would purchase 18 CG-47 cruisers, 26 DDG-51 destroyers, and 51 DDGY destroyers, for a total of 95 ships. (By the same token, we could obtain other mixes of these same three ships while continuing to limit our expenditures to $33 billion.) Regardless of the particular mix we selected, we could — for a lower unit cost than the price of the DDG-51 — obtain a fleet with more flexibility and with greater numbers of ships.

The Reagan shipbuilding program which was originally announced in March 1981, represented an acceleration in the production of existing classes of vessels. For instance, the President proposed building an additional SSN-688 attack submarine, an additional CG-47 Aegis cruiser, several additional support vessels, and two additional frigates in 1982. Overall, he proposed increasing the shipbuilding budget from roughly $7.5 billion to $10.3 billion for FY1982, and he hoped thereby to obtain 33 new or converted and reactivated ships this year. This, of course, was the first step in his long-term program to create a 600-ship Navy, and it emphasized a balanced fleet along the lines of traditional Navy doctrine.

The President's October defense budget revisions proposed a slightly smaller shipbuilding program for 1982, principally by deferring the construction or conversion of noncombatant naval vessels. And in the final defense bill for 1982, the number of planned ships had been reduced to 26. The pattern was much the same with the budget requests — and the actual bills passed by Congress — for the following fiscal years.

What has been happening, in other words, is that even the Reagan administration, with its deep commitment to rebuilding the Navy, has been unable to sustain the pace of ship construction needed to meet early plans.

This suggests all the more strongly why it is important to structure our fleet around a distributed threat. First, we simply can't afford to get the kind of ships needed for a dense threat, at least in the near future. If we continue to plan around this concept without building for it, we will risk an imbalance in the Navy.

Second, given the reality of defense budgets which can't keep pace with plans, we can get more ships for our money — and more coverage of the Soviet navy — if we build against the distributed threat. Obviously, if we could afford it, it would be preferable to get the best and largest ships possible, and to do so in as large a quantity as anybody would desire. But we simply can't do that. Under the circumstances, it may be doubly foolish to orient the Navy around the concept of dense threat operations.

In other words, both the budget constraints now emerging and the possibility that we are over-emphasizing carrier battle group operations suggest that we take a closer look at Navy plans.

Possible Design Options

For instance, the cost of a nuclear-powered large-deck carrier, such as the U.S.S. *Nimitz* is at least $3 billion for the ship alone, before it has deployed its aircraft. The cost of putting together a total battle group is $12 billion at the minimum. We cannot and should not foresake the aircraft carrier, for it is our greatest single asset, and I agree that we should eventually look for a fleet of 15 carriers rather than the 13 we now deploy in order to meet current and future requirements over three oceans.

But nuclear propulsion does not come cheap. It typically adds some thirty percent to ship construction costs. And what do you get for that investment? A nuclear-powered carrier can theoretically steam for 13 years without refueling, but crew rotation, overhaul, and replenishment of food and ammunition are somewhat more frequent necessities. The advantage in steaming duration is therefore not so great for a very large ship — which has a high duration even when oil-fired — as some would argue. Indeed, the longer a ship stays out to sea, the more likely its crew is to leave the Navy. Second, it is true that a nuclear-powered aircraft carrier does not need to devote much space to the storage of fuel oil, and can therefore carry as much as three times the ammunition and four times the jet fuel as an oil-fired carrier. But this becomes important only when we must deploy our carriers for extended periods of time, a problem which could be overcome in large measure by rotating many carriers often rather than few carriers only seldom.

In other words, some of the arguments for nuclear propulsion are either illusory or self-justifying. Because we are forced to spend so much more on nuclear propulsion than on oil-fired engines, we are able to buy fewer carriers. This means that we can cover fewer ocean areas at any given time. We are told that we nonetheless can keep each carrier at sea for a longer period of time. But this overlooks both the effects on crew morale and the fact that we do *not* need to be nuclear-powered to remain effective. If our next large-deck carriers were oil-fired rather than nuclear-powered, we might save as much as $2 billion in construction costs alone, and we would not need to recruit as many nuclear-trained officers who are already in short supply.

Just as important, we must get on with the job of building smaller carriers which can deploy Vertical and Short Takeoff and Landing (VSTOL) aircraft, such as the Marine Corps AV-8B Harrier which showed itself to such advantage in the Falklands.

Congress has repeatedly stated that the VSTOL technology offers a promising means of covering the strike mission for far less money than is required for large-deck carriers. One of the main arguments for large-deck carriers is that they can carry sufficient numbers of F-14 fighters for air defense, while a VSTOL carrier cannot. This is true, but there is no reason why we cannot operate a VSTOL carrier in conjunction with a large-deck carrier in areas where we need the protection provided by F-14s. Secretary Weinberger has indicated that the Navy will treat its planned amphibious assault ship, the LHDX, as a VSTOL carrier, so it appears that we are finally moving in the right direction. But Navy compliance with this innovation will need close scrutiny.

We cannot afford, nor do we need, unlimited numbers of large-deck carriers. While I accept the Administration's view that we should eventually have a baseline force of 15 large-deck carriers, I believe that any expansion of the carrier fleet beyond that level must be done with VSTOL and medium-deck carriers. Anything more is simply an extravagance.

In analyzing aircraft carriers, it is important to remember that they fulfill a power projection role as well as a sea control role. And in this regard, the decision to reactivate the battleships *New Jersey* and *Iowa* makes considerable sense. These ships are *not* being reactivated to perform sea control missions; they will not use their 16-inch guns to slug it out with other vessels. Instead, the ships will be huge floating weapons platforms which can provide needed support for power projection and amphibious missions.

When the battleships are outfitted with several hundred Tomahawk cruise missiles, they will represent an awesome capability. In other words, the *New Jersey* and *Iowa* can perform the mission now assigned to attack aircraft aboard our carriers, and they can do so for a fraction of the cost.

Reactivation of each ship will cost less than the construction of a new frigate. And in situations where the battleships might need air cover, they can operate in conjunction with carrier battle groups or with Aegis cruisers.

Similarly, there are areas in which our submarine fleet can be modernized and expanded at substantially less cost by examining the functions rather than the technology involved. For instance, many of our attack submarines are or will be assigned to barrier duty in various chokepoints. This is a vital function, for it can bottle up an enemy fleet with relatively little cost. But barrier duty does not demand the high-cost assets represented by nuclear powered submarines. It can be performed just as well — and in some cases better — by diesel/electric submarines, which can be obtained for roughly one-third the unit cost of a *Los Angeles* class attack submarine.

Many advances have been made in diesel/electric propulsion since World War II, and fuel cell technology is also a promising avenue. While diesel/electric boats do not have the long patrol duration of nuclear-powered submarines, and while they must extend snorkles above the surface periodically, they are nonetheless quite capable of barrier duty. They also have the unique advantage of lower personnel requirements, both in terms of numbers and in terms of training. This is particularly important at a time when the Navy is finding it difficult to retain adequate numbers of nuclear-trained people. Moreover, there is some reason to believe that diesel/electric boats may prove more survivable than nuclear-powered boats against anti-submarine tactics, since they are generally quieter. Finally, diesel/electric boats have a shallower draft than nuclear-powered submarines, and are therefore more able to operate in tight areas. If we can purchase three such boats for the price of one nuclear-powered submarine, the trade-offs seem sensible. Unfortunately, since the publication of my White Paper, Secretary of the Navy John Lehman has rejected the construction of such vessels.

Another area that bears close attention is possible cooperation between the Navy and other services for a number of sea lane control missions. There is no reason, for instance, why the Air Force cannot use some of its B-52 bombers for anti-submarine and anti-surface fleet missions. Moreover, air-dropped mines can effectively pen up huge numbers of enemy ships. (Indeed, the threat of air-dropped mines is so vivid that the Germans made a great show of flying planes over the Thames River estuary during World War II, apparently on mining missions. In fact, the planes dropped concrete blocks, not mines, which were in short supply. But the apparent threat was sufficient to keep shipping plugged up for weeks.)

This brings me to my final point. I am not convinced that we have paid enough attention to either the threat of Soviet mines or the potential for our own. Mines are extremely cost-effective, particularly against a fleet like the Soviet navy which is already hemmed in behind a number of geographic chokepoints. Why not hem them in further by using mines rather than spending money on ships that will do the job no better?

It is worthwhile to recall that, during World War I, more than 1000 vessels were sunk by some 230,000 mines which were seeded. In World War II, as the efficiency of technology increased, less than 100,000 mines sank some 2665 vessels. Another 200,000 mines served to keep shipping penned up in harbors. And in the Pacific campaign, mines sank 1.3 million tons of enemy shipping at no cost in American lives, while American submarines sank 4.8 million tons of shipping at the cost of many American lives. Technology has advanced still further, making naval mines an extremely cost-effective way to deny or retain control of the seas in particular areas. While mines cannot be a substitute for naval power, they can be a powerful and inexpensive force multiplier. Yet as Elmo Zumwalt, the former Chief of Naval Operations has pointed out, there has traditionally been little enthusiasm within the Navy for mines, in part because no captain can pace the bridge of a mine.

In summary, I strongly support increased expenditures for our Navy, both to maintain the fleet at its present levels in the short term, and to expand its size over time. But I believe there are a number of areas in which we can both save money and improve our force posture, particularly in the near future. I hope we will have the determination to get on with the job.

8 The Marine Corps: Defining Missions for the Future

"So long as we have a maritime posture, we will need the Marine Corps."

At various periods of time over the past 170 years (since the end of the War of 1812) "experts" have argued that the Marine Corps is obsolete and redundant. Fortunately, they have always been disregarded, for no service has done more with less than the Marine Corps.

The Marines saw their budget decreased nearly every year since 1970, and at a faster rate than any other component of the Defense Department. Their procurement budget — including funds for aircraft — is less than three percent of the overall Defense procurement budget. Yet the Marines, with an active-duty strength of 188,000 and an additional 33,600 in the Reserves, represent a substantial force by world standards. The size of the Marine Corps exceeds the size of the total ground forces of seven NATO allies, and the Marine air service is larger than the tactical air arms of ten allies.

In large measure, of course, such impressive results on so small a budget reflect the fact that the Marine Corps is principally defined as light infantry. Moreover, the Marines have always had a much higher "tooth-to-tail" ratio than the Army, largely because the bulk of their logistical support is provided by the Navy. Finally, the Marines have conspicuously chosen to emphasize quality over quantity. At a time when other services had difficulty recruiting skilled people, the Marines refused to accept more than one recruit in four who lacked a high school diploma.

A Combined Arms Force

The organizational structure of the Marine Corps is unique, and it bears some examination, for it contributes to the Corps' great success as an elite fighting force. The Marine Corps is the only service which has had its minimum size specified by law. Under the 1947 National Security Act, the Corps will always consist of at least three infantry divisions and three air wings, which together will provide a combined-arms capability for the Navy's "Fleet Marine Forces." As of today, the Marines comprise the minimum three divisions and three wings, with an additional division and wing retained in the Reserves.

It is the combined-arms emphasis of the Marine Corps which makes it particularly notable. Unlike the Army, which does not have its own tactical air arm, the Marines have both air and ground capabilities in one service, in addition to the amphibious and naval support provided by their parent service, the Navy. This means that a Marine ground forces commander can call on substantial support without going outside his service boundaries. Marine training constantly emphasizes combined-arms operations, something which is difficult to carry off when two or more separate military services are involved.

This combined-arms approach is reflected in the structure of Marine task forces serving with the Fleet Marine Force. There are three sizes of air-ground task forces, permitting a degree of tailoring and flexibility. That largest task force is called a "Marine Amphibious Force" (MAF), which is comprised of one infantry division and one air wing. Its total strength is roughly 50,000 personnel. A "Marine Amphibious Brigade," in turn, consists of one infantry regiment and a small air element, totalling anywhere from 7,000 to 16,000 personnel. The smallest task force is a "Marine Amphibious Unit" (MAU), consisting of one infantry battalion with associated helicopter support and totaling at most 2500 personnel.

MARINES
AV-8B

[illegible]

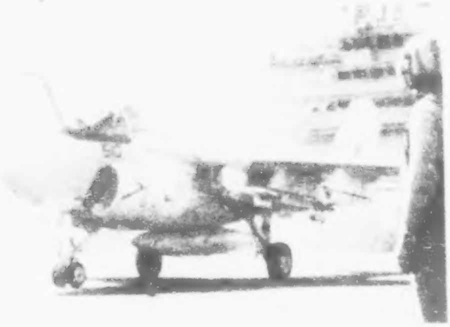
This [illegible] Defense Audiovisual Agency,
Washington, DC

[illegible]

[illegible]

[illegible]

E-3A Sentry [illegible] with its Airborne Warning and Control System (AWACS) in flight



A-6 Intruder [illegible] on launch [illegible] USS Dwight D. Eisenhower (CVN 69). [illegible]

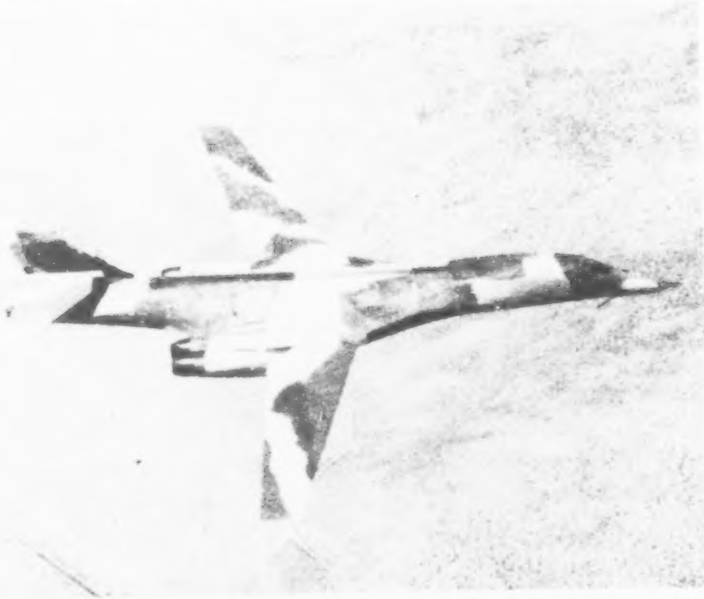
F-4G Phantom II aircraft banking to the right. The aircraft is carrying AGM-45 Shrike antiradiation missiles.
U.S. AIR FORCE PHOTO

Low angle left A-10 Thunderbolt II aircraft banking to the right. The aircraft is carrying four AGM-65B Maverick Scene Magnification missiles and an AN/ALQ-119 electronic countermeasures pod.
U.S. AIR FORCE PHOTO

A bow-on view of the aircraft carrier USS John F. Kennedy (CV-67) underway

[illegible]

A B-1 [illegible] Edwards AFB, California [illegible]



A Soviet TU-22M Backfire [illegible] after take-off

[illegible]

F-14 [illegible] Medium Range Air-to-Air Missile (AMRAAM)

Currently, one MAF is headquartered on the east coast, one on the west coast, and one on Okinawa. Elements of each MAF are at sea with the Navy, and two Marine Amphibious Units — battalion-sized elements — are deployed in the Indian Ocean area.(Another MAU, of course, was sent on the peacekeeping mission to Lebanon.) Moreover, the MAF on the west coast is designated as a "swing" force for reinforcement wherever needed. Finally, a special Marine Amphibious Brigade has been created at Twenty-Nine Palms, in California, to undergo training in desert warfare and to evaluate new equipment.

Amphibious Operations

This overview suggests both the strength and the weakness of the Marine Corps. Its primary strength is its versatility and its doctrine of combined-arms operations. Its primary weakness is that it is under-equipped and stretched too thin, trying to cover missions ranging from desert warfare to theater reinforcement to rapid reaction to amphibious assault.

Traditionally, of course, the Marines have specialized in amphibious operations, a technique they pioneered in the 1920s. But recently, many critics have suggested that the Corps has no future since amphibious assaults are purportedly a thing of the past. Such a view is both shortsighted and ill-informed.

In the first place, the Marine Corps serves as the cutting edge of a *maritime* strategy. The Marines complement the Navy by assuming responsibility for the seizure and control of strategic littorals, chokepoints, ports, airheads, and forward naval bases. Their fundamental mission, in other words, is maritime. Amphibious doctrine is only one *means* to pursue this mission, not an end in itself. So long as we have a maritime posture, therefore, we will need the Marine Corps. Any responsibility or mission that moves the Marine Corps out of this area is a waste of assets. For instance, while the Marines performed admirably at the Chosin Reservoir in Korea and at numerous places in Vietnam, their use as regular infantry in sustained operations was a maldeployment. Their real potential in Korea was demonstrated at the Inchon landings — General MacArthur's masterpiece of maritime strategy — and not in their subsequent march north, a march which lasted two years.

But if amphibious doctrine remains only a means to fulfill maritime strategy, it is nonetheless still viable today. An amphibious force can choose the time and the location of its assault, and it will seek to "hit 'em where they ain't," not where the defenses are strongest. Moreover, Marine tactics and technology have been refined, and an assault can now rely on helicopters, landing barges, and highly agile and speedy air cushion landing craft. In fact, the air cushion craft will have enough range and versatility to put fully 70 percent of the world's beaches on the list of possible landing sites. In the past, it was estimated that only 20 percent of the world's beaches were suitable for an amphibious landing. This means that the Marines will be able to exercise even greter freedom of choice when it comes to achieving surprise.

Nonetheless, getting ashore — by whatever means — is only part of the problem, for eventually an amphibious force must face determined and organized resistance. And here the Marine Corps confronts some serious problems. Marine ground forces are classically light infantry. A Marine infantry division currently contains only 70 tanks, as compared with nearly 300 for an Army infantry division. Each division is equally light in terms of artillery and heavy weapons. But many countries in the Persian Gulf area, for instance, have more tanks than some of our NATO allies, and Soviet paratroop divisions are fitted out with several hundred BMD light tanks.

Obviously, the lighter a force, the more it can take advantage of imaginative manuever tactics to collapse an opponent through agility rather than brute force. Nonetheless, light infantry will be no match for heavy infantry in many circumstances. So the challenge is to increase firepower without sacrificing agility.

If the Marines were to adopt the heavy equipment used by the Army for sustained ground operations, they would lose the litheness and flexibility which must characterize a maritime strategy. Therefore, the Corps has traditionally relied on its air wings and on naval artillery for sustained heavy support. When the AV-8B attack plane, with its unique vertical take-off capability is in service, the Marines will be able to order close air support with high confidence that the response will be timely, since the plane can hide out in unprepared areas near the front lines. Equally, Marine amphibious parties can call on naval shore bombardment — including the guns of the renovated battleships — if heavy artillery support is needed, at least within a few miles of the coast.

Nonetheless, the Corps itself has concluded that it must adopt more heavy weapons. A study known as the Haynes Board concluded in 1976 that each Marine division should be supplemented by a brigade of armored vehicles, and suggested the adoption of a lightweight "Mobile Protected Weapons System."

The Marines have recently reorganized their infantry battalions around three rifle companies and one heavy weapons company.

They have replaced their 105-milimeter artillery with 155-milimeter guns, and have assigned eight rather than six guns to a battery.

They are adopting the Army's M-1 tank to replace the older and light M-60. This last step may be a mistake, however, since light armored vehicles can now carry huge guns.

The Marines and the Army are jointly exploring a family of lightweight armored vehicles, weighing 14 tons or less, with which to foster maneuver warfare. While the two services are in disagreement over such basic issues as whether the vehicle should be wheeled or tracked, the fact remains that the Marine Corps is gradually adopting the heavier weaponry it will need to survive in today's environment.

What Mission For the Marines?

But before substantial investments in needed new weaponry are made, we should clarify the mission of the

Marine Corps. We will always need to use much of the Corps as a rapid reaction force for small crises. This is its forte, and it would be foolish to abandon it. But at the moment, the Corps is being pulled in at least three directions simultaneously: northern Europe, the southern flanks of NATO, and the Persian Gulf. These theaters differ enormously in the requirements they impose, and it is foolish to believe that troops trained and equipped to fight in the desert can do a good job if called upon to reinforce Norway in the dead of winter.

To reiterate, it is a waste of limited resources to treat the Marine Corps as simply a smaller Army and to look upon it as a source of reinforcements for heavy and sustained ground operations in Europe. The amphibious assets of the Corps are simply unnecessary if it is committed, for instance, to reinforce Norway.

But by the same token, I see little reason to continue on the multi-service road we have chosen with respect to the Rapid Deployment Joint Task Force (RDJTF) when the Marines are both suited for and capable of assuming that mission. Until the Pentagon recently dreamed up the RDJTF, the Marines had always served as a rapid reaction force. There is no reason why they cannot continue, particularly now that they are adopting the heavy equipment needed for sustained operations.

The Rapid Deployment Force

The history of the RDJTF goes back to an early Carter Administration study, Presidential Review Memorandum Number 10, in September, 1977. At that time, it was decided to explore what was called a "Unilateral Intervention Force" for employment in crises throughout the world. Originally, it was anticipated that this role might be assigned to a corps of Army troops, freshly equipped and highly trained in amphibious and maneuver doctrine. The Force would presumably be used in crisis situations calling for more than a Ranger battalion but less than a major commitment of troops. Over time, this concept emerged into the RDJTF, which was unveiled with great fanfare at the time of the Soviet invasion of Afghanistan.

As former Secretary of Defense James Schlesinger has noted, the Holy Roman Empire was for years derided as being neither holy, nor Roman, nor an empire. Likewise, the Rapid Deployment Force is neither rapid, nor particularly deployable, nor a force. They key word which explains this is "joint."

The Rapid Deployment Joint Task Force is a four-service headquarters element which opened operations at MacDill Air Force Base on March 1, 1980. It currently consists of some 250 planners. While it was initially focused on possible operations outside any of the standing unified or specified commands (Europe, the Pacific, the Atlantic, and so forth) it has now been more narrowly focused on one area — Southwest Asia and the Persian Gulf.

Originally, it was envisioned that the RDF would call up a series of pre-tailored "packages" of troops, ranging in size from a Marine Amphibious Unit of 2500 men to a massive operation involving Army divisions, naval carrier battle groups, several wings of tactical aircraft, and associated support. Such a force would have involved upwards of 200,000 men. Now, some people are talking about an RDF which could involve as much as 444,000 troops, a truly massive force encompassing five divisions, 10 tactical air wings, two MAFs, and three or more carrier battle groups. Such a view reflects the belief that the RDF should be capable of a full-scale defense, and not simply an intervention and deterrent role. Were we to commit to so large a force — and we should not — it would necessitate a reorientation away from Korea or NATO or would require an additional three to five Army divisions above the 16 now fielded. In short, much of the planning for the RDF seems to occur in a dream world.

But having said this, I should add that the studies which have emanated from the RDF planning staff have been extremely valuable. They have pointed up the enormous difficulties of moving some 200,000 or more U.S. troops from this country to a point 12,000 miles distant in sufficient time and in sufficient numbers to stop an assault. Among other things, it has been determined that we simply lack the capacity to transport several divisions of Army troops, with their tanks, their trucks, and their elaborate logistical tails. Such fundamentals as water will be in scarce supply. Troops which rely on massive amounts of equipment require massive amounts of water to cool that equipment, as well as for their own personal needs. And water is simply unavailable in any substantial quantities throughout much of Southwest Asia. In other words, the studies have been extremely beneficial, for they have outlined the problem and have indicated what we must do if we are to continue with the RDF.

Nonetheless, I find it difficult to understand why the RDF must be set up as a joint task force drawing upon all four services. One thing history has demonstrated clearly is that joint-service operations are very difficult to carry off, for each service has its own equipment, its own doctrine, and its own way of doing things. Particularly where a joint-service operation relies upon troops picked at the last moment because they represent a "tailored" response, these problems are only compounded, for such troops have had little time to rehearse and exercise with each other. Yet this is exactly what we propose doing with the RDF.

Aside from the difficulties inherent in such joint-service operations, the approach taken with the RDF implicitly assumes three things. First, it is assumed that troops held in our general strategic reserve for use around the world will be readily available in the event that the Soviets invade Persian Gulf states. Yet, as noted earlier, the "planning" guideline adopted by the Reagan Administration postulates that conflict with the Soviets is likely to spill over into several theaters simultaneously. In other words, those Army divisions designated for the RDJTF may be required elsewhere, for instance in Europe. This is nothing more than a restatement of the truism that we can never have enough military muscle to meet all conceivable contingencies simultaneously, and that we never had enough troops to meet the requisites of our "one and one-half war" strategy. But there is little point in compounding this problem by relying upon Army divisions from our strategic reserves.

Second, the approach taken by the planners implicitly assumes that military forces are "fungible," that is that troops which are trained and equipped for one contingency can be readily shifted to another contingency. Should Army troops be sent to the Persian Gulf as part of an RDF operation, they might well be the same troops who have been equipped and trained for armored or mechanized warfare on the plains of Central Europe. Their doctrine and equipment, in other words, may very well be unsuitable for the situation to which they are committed. Moreover, if our airborne divisions — which are the only forces capable of rapid response at such distances — are committed, they may very well be outgunned. We can parachute a battalion of the 82nd Airborne into tht Persian Gulf relatively quickly, although the full division will not arrive for some days thereafter. Even when the full division arrives, it will not have the armored capability which is found in any of the seven Russian airborne divisions.

Third, of course, the RDF concept assumes that we will have sufficient transport to move vast numbers of troops and huge volumes of heavy equipment some 7500 air miles or 12,000 sea miles, and to do so in time. The fact is, we do not. Although RDF planners argue that we could predeploy if we had sufficient warning, this is a "best case" rather than a "worst case" assumption. Some estimates indicate that it would require at least 15 days to move our two lightly-equipped airborne divisions and their supplies to the Persian Gulf even if *every* airplane in the Military Airlift Command were available *and if* these planes were supplemented by some 200 civilian airliners. To assume that a crisis which requires a major commitment to the Gulf would not be accompanied by crises elsewhere, putting a further strain on our transport, violates one of the precepts of the Reagan planning guidelines.

Command Problems in the RDF

Thus far, I have been speaking of the "RDF," since that is the term by which it is most popularly known. In fact, the former Rapid Deployment Force has now been elevated to a unified command known as Central Command (CENTCOM). This was designed to alleviate still another set of problems. It has only compounded them.

At first, the commander of the old RDF was a three-star Marine general who reported to the four-star Army general in charge of the Readiness Command. In the event of deployment, the RDF commander was supposed to report either to the Commander-in-Chief, Europe (CINCEUR), an Army four-star general, or the Commander-in-Chief, Pacific (CINCPAC), a four-star Navy admiral, or to the Joint Chiefs of Staff. It was never clear to me who would command, in part because it was never initially clear where the RDF might be sent. Even worse, there was further confusion over how the commander of the RDF would actually levy the troops for his command, for he was supposed to look to higher-ranking commanders for needed support.

To some extent, this mess was untangled when the RDF was re-designated as the CENTCOM and command was vested in a four-star general. Significantly, the command was given to an Army officer rather than a Marine, emphasizing the joint nature of the command.

Nominally, CENTCOM is different from the RDF. CENTCOM is the geographic theater in which command occurs, while the RDF is the force which will assist the CENTCOM commander. In reality, of course, this distinction is less significant.

The important point, however, is that the jurisdiction of CENTCOM was as carefully carved out as any Congressional gerrymander. The CINCPAC will continue to have jurisdiction over the Arabian Sea and Indian Ocean, south of Saudi Arabia, but *not* over the Persian Gulf which separates Saudi Arabia from Iran. The CINCEUR will continue to have jurisdiction over most of the Middle Eastern nations, but not Iran. In other words, the region where CINCCENT will have command is a compromise which preserves the turf of the existing theater commanders. Given that the flow of battle is unlikely to conform to such nicely-drawn lines, command problems are only perpetuated. It is important to attempt to restore as much unity of command as possible. One way to do this would be to make the RDF (or CENTCOM, if one prefers) a specified rather than a unified command, and to turn it over to the Marine Corps.

The Marines As the RDF

The advantages would be more than simply jurisdictional, however. In examining the proposals for the RDJTF now emerging, it is clear that our plans are dependent in large measure on several key underpinnings. Primarily, it is implicitly assumed that we can obtain, whether in advance or during deployment, access to various port and airfield facilities throughout the region. The decision to create the Rapid Deployment Force out of heavily equipped units which are based in the United States means that we must be able to move massive amounts of material into the region. To do this with our fleet of C-5A aircraft and transport ships requires established shore facilities capable of handling such large volumes of traffic. This in turn requires either extensive basing agreements — which can always be revoked — or actual American presence on the ground, which can tie up troops and breed local resentments.

Our experience in resupplying the Israelis during the 1973 Middle East War taught us that even our closest allies cannot always be counted on to provide such fundamentals as transit rights, refueling rights, and so forth. Therefore, to hope that agreements worked out with Third World governments will remain in effect — at a time when we are seeking to put troops ashore in another Third World country — is short-sighted.

As a recent article in the U.S. Naval Institute *Proceedings* makes clear, any rapid deployment force requires three things if it is to succeed: it must be flexible; it must be in actual rather than potential existence; and it must have access to its theater of operations directly from the sea rather than indirectly via ports and airfields. And as Jeffrey Record, a respected defense analyst argues, the RDF should be characterized by its fighting quality rather than its size; by a capacity for forcible entry rather than a reliance upon secure shore facilities; by a tradition of combined arms rather than a structure of joint-service operations; and by logistical self-sufficiency rather than dependence upon lengthy and exterior lines of communications.

In terms of all these criteria, the current structure of the RDJTF is notably deficient. By contrast, the Marine Corps meets each of these criteria.

If we were to continue to provide the Marine Corps with the heavier equipment it needs for sustained operations, to provide the amphibious capabilities needed for forcible entry, and to prestock sufficient quantities of material in the region — on ships rather than ashore — the Marine Corps could easily assume the entire mission of the RDJTF. Indeed, if one counts the size of the Corps' three MAFs and its reserve elements, one finds that the entire Marine Corps is nearly as large as the initially proposed 200,000-man strength of the RDJTF. More importantly, because the Marine Corps is less dependent than other services on a huge logistical tail, it is unlikely that a Corps-based Rapid Deployment Force would require such massive strength as we now anticipate.

Clearly, we cannot afford to devote the entire Marine Corps to this mission, for like all of our forces the Marines are stretched thin with too many commitments. Much of our current posture in the Pacific, for instance, requires a Marine presence. And just as clearly, the proposal would require a continued naval presence in the Persian Gulf, with an emphasis on both logistical and surface action capabilities. But we could do the same job with greater efficiency and with less potential for disrupting the political stability of Gulf nations or for undercutting our security posture, which must continue to rely on a strategic reserve for NATO.

We would also gain a vastly simplified chain of command, since the responsibility for the Rapid Deployment Force could be transferred to the Pacific Command (a Navy responsibility). An added benefit, of course, would be that overall responsibility would be kept within the Department of the Navy, of which the Marine Corps is an element, rather than shared among all four services.

Functions of the RDF

In my view, the chief function of the RDF must be to provide a credible, rapid, and capable American presence in the region of the Persian Gulf. It will be our ability to emplace troops *before* Soviet forces can arrive on the scene that will act as the fundamental deterrent to a Soviet invasion. Once Soviet leaders understand that an invasion of a Gulf country would bring them into direct contact with substantial American forces already on the scene, they would be forced to contemplate the prospect of both a stiff fight and, more importantly, the risk of escalation. It is these uncertainties which best deter an invasion. Just as in Europe, the Soviets are likely to be deterred *not* by an absolute understanding that we could defeat them militarily, but rather by the knowledge that the risks — of conventional defeat *or* of escalation — vastly outweigh any possible gains.

Indeed, we often forget the kinds of operational difficulties which would confront any invading Soviet force. If the Soviets chose to come down to the Gulf via the Zagreb mountains, their most likely invasion route, they would be tackling some of the most forbidding terrain in the world. Equipment would overheat and break down. Troops would bunch up or spread out too far in an "accordian" effect. Either result would make them susceptible to ambush by raiding parties which could hit and fall back to the next ambush site. Tanks and armored vehicles would be forced to operate in long, thin columns — occasionally with only one vehicle up front — which would subject them to a turkey shoot. Indeed, the destruction of just the lead vehicle could delay a column for hours. As this was repeated over and over, the accordian effect would become more pronounced.

In short, it is hardly the case that an invading army could expect unimpeded operations. From the first moment, long before the vital oil fields were within sight, an invader would be faced with bitter and prolonged fighting which would substantially favor the defender. It is not clear why we would need a huge force of 200,000-400,000 troops, particularly if we were forced to delay our response while assembling so large an expedition. To the contrary, we would do better to rely on a rapid response by a force capable of taking advantage of the terrain and inflicting losses on an invader. Such a force is available in the Marine Corps. It should be sufficient to give any invader pause; in other words, it should be sufficient to deter.

But, just as in Europe, this deterrent strategy requires that our troops be in place. Since we cannot — and should not — seek to station them ashore, we must ensure that they can arrive in sufficient time and in sufficient numbers to be waiting when an invading force arrives. If we arrive *after* the Soviets have successfully established a presence in any country, regardless of how strong a force we put ashore, our task is much harder for we must fight and expel entrenched troops. The risks of such an operation — defeat or escalation — accordingly will fall on us rather than on the Soviets. In other words, a Rapid Deployment Force which arrives too late constitutes more of a self-deterrent than anything else. Yet that is what we potentially face with current plans.

Finally, it is important that the Rapid Deployment Force be large enough to present a credible defense — a defense which is ultimately backed up, like all our other forces, by our strategic posture — but no larger. Too large a force is as dangerous as too small a force, for it will divert our resources from other commitments, develop a logistical tail, and be unsuited to the fundamental purpose of the RDF — deterrence. Our goal is to deter an invasion before it occurs, not to crush it at some later date.

From this perspective, the Marine Corps is ideally suited to the mission of the Rapid Deployment Force. It would be far preferable to have, for instance, one Marine Amphibious Force of 50,000 men ashore in adequate time to meet an invader than to have 200,000 men arrive after the invasion was completed. Were we to station sufficient forces in or near the Persian Gulf, and provide them with adequate amphibious and logistical support for perhaps one month of operations, we could assure that the mission of the Rapid Deployment Force was being fulfilled.

Ultimately, of course, a full-fledged response to a Soviet invasion would entail four phases of operations: forcible entry, rapid reinforcement, heavy reinforcement, and the arrival of sustaining logistical forces. The Marine Corps can easily cover the first two phases if it is adequately equipped and provisioned. If it were deemed necessary later to introduce heavy reinforcements, we could then resort to the transfer of heavy infantry and other forces from the United States. In other words, in the unlikely event that a Soviet invasion of the Gulf resulted in a conventional war of major proportions and long duration, it would be altogether possible to resort to the mobilization plans now contemplated for the existing RDJTF. But to rely on those from the outset now may doom us to arrive in the Gulf too late with too much.

9 The Tactical Air Forces

". . . it is the better trained pilot more than the superior aircraft which contributes to victory."

As noted earlier, the United States does not have just one Air Force; it has four. In addition to the Tactical Air Command of the Air Force, the Army, Navy and Marine Corps all have substantial numbers of combat aircraft. Why?

Tactical Air Missions

Tactical fighter squadrons perform three missions: air superiority, close support,and interdiction. Air superiority involves obtaining and maintaining control of the skies over an area of operation, and it calls for the ability to destroy both enemy aircraft and enemy airfields. It can be augmented by air defense systems based on the ground.

Close support operations provide firepower for ground troops, typically at the request of the ground forces commander. Aircraft designed for close support operations are very different from those designed for air superiority. Ideally, they fly relatively slow and low in order to be assured of getting their ordnance on target. This calls for a very different wing loading, thrust-to-weight ratio, and lift-to-drag ratio.

Interdiction involves attacking enemy assets in rear areas — troop concentrations, rail junctions, or military stockpiles — in order to isolate the battlefield. Its effect on the conduct of ground operations is therefore less direct than the effects of air superiority (basically a defensive mission) or close support.

Tactical Air Arms

The Air Force, through its Tactical Air Command, performs all three missions with a force structured around some 25 active and 12 reserve wings of planes. It plans to have 28 wings by 1988. Each wing comprises 72 aircraft, and is arranged in terms of its principal mission: interdiction, fighter-interceptor, close support, and so forth.

The Navy currently has 12 wings of tactical aircraft, one for each operational carrier at sea. It also has two wings of planes in the Navy Reserves. The Navy hopes to grow to 14 wings in the near future to keep pace with the expected growth of the carrier fleet. The size of each wing tends to vary, but a typical wing has up to 80 aircraft, of which 24 are F-14 or F-4 fighters; 24 are A-7 light attack aircraft; 14 are A-6 medium attack planes; and the balance are reconnaissance, support, or refueling planes.

The Marine Corps air arm is fixed by law at three wings, plus one wing in the Marine Corps Reserve. The size of each wing can vary depending on the mission being undertaken, but a typical wing has 48 F-4 fighters; 38-57 A-4 and AV-8B close support planes; 10-20 A-6 bombers; and a large number of helicopters.

The Army air branch is principally important in terms of its helicopters, which are generally divided between utility aircraft, used for hauling men and equipment, and gunships, which are designed to fight in support of ground troops, particularly against tanks.

For many years, the Air Force (as outlined in Chapter II) tended to neglect the Tactical Air Command, preferring to invest its resources in strategic bombardment. This meant that most TAC aircraft were basically long-range bombers designed as multi-mission planes. No aircraft were optimized for the close support mission until recently.

By contrast, the Navy has traditionally emphasized specialized rather than multi-mission aircraft. The Navy deploys attack planes which can provide ground support and interdiction, and fighter planes which are primarily designed to establish air superiority over the fleet and to offer air cover for attack planes over land. In this way, no mission was ever neglected and Navy aircraft were able to perform well in a variety of environments. Unlike the Air Force, the Navy has maintained separate communities of attack and fighter pilots, with equal career opportunities for each.

Recently, however, these traditional emphases appear to have been reversed. In the late 1960s, Air Force planners realized that they had paid too much attention to deep-interdiction nuclear strikes and insufficient attention to other missions. This led to the development of a new generation of specialized aircraft, including the A-10, the first plane ever developed within the Air Force specifically for the close support mission. The Navy, by contrast, is currently developing the F/A-18, a dual-purpose plane which is designed to function as both an air combat fighter and as a light attack plane. This aircraft is slated for service with the Marine Corps as well, despite the objections of many Marine pilots.

Design Emphasis in Fighters

Fundamentally, the problems faced by all the tactical air forces reduce to one word: readiness. Each year since 1945, we have built fewer and fewer fighters thanks to the ever-increasing complexity and expense of new aircraft designs. The average unit cost for each new generation of fighter aircraft has increased roughly four-fold. If we were getting four times the capability, this might be worth the price, but we are not. Simply put, we are fielding fewer planes with less spare ammunition and at greater costs than ever before. If costs were to continue increasing at the same rate indefinitely, we would find that by the year 2054 the entire defense budget would purchase only one airplane for the Air Force, the Navy, and the Marine Corps.

Much of this cost growth is simply the price we must pay to fly aircraft in the 1980s. A fighter plane from World War II or Korea would not last long in today's environment. But much of the problem derives from a continuing emphasis on aircraft which can fly around the clock, in all weather, and can engage enemy aircraft at distances well beyond visual range. These capabilities require enormously complex — and physically large — avionics systems. The larger the avionics sets, the larger the airframe must be, meaning that many of our air-superiority fighters are nearly as big as World War II bombers.

This emphasis on large and highly complex tactical aircraft is by no means universal, but it leads us to ask three related questions about our tactical air forces. First, there is an increasing concern over cost-benefit ratios of each successive generation of planes. An increase in unit costs of the kind we have been experiencing means that we can purchase fewer and fewer aircraft when more are needed.

A high-intensity air combat environment in Europe, for example, is likely to be characterized by "swarm tactics," with the Warsaw Pact putting up huge numbers of planes over a relatively small area. Given that Warsaw Pact and Soviet frontal aviation forces have increased in both quantity and quality over the past decade, one must question the degree to which our outnumbered air forces can hope to achieve the massive kill ratios necessary to win air superiority. Quality counts, but so does quantity, as I noted in Chapter II. Certainly, American-made aircraft like the F-15 have proved their mettle in Middle East combat, but it is unclear whether we can extrapolate from the relatively small number of hostile planes in Syria to the huge Warsaw Pact air forces, manned by first-rate pilots.

The second question is perhaps more disturbing. To the extent that we design our tactical fighters for combat beyond visual ranges, we are betting on a kind of combat with which there is relatively little experience. Repeatedly, we have seen people argue before a war that the dogfight is a thing of the past. Each time, however, aerial combat seems to turn in large measure on the close encounter.

It is certainly preferable to engage enemy aircraft at long ranges, particularly when our forces are on the strategic defense, as in NATO. But when we build our defenses around nets of fighters accepting information from large AWACS early-warning aircraft, we create problems. We risk losing our advantage if the AWACS is shot down or if its communications links are jammed. And, we have a hard time judging friend from foe, particularly in the confused and crowded skies which are likely to characterize combat over Europe.

We can be certain that, even if long-range combat is a success, there will be a need for close-in dogfighting to handle the inevitable planes that leak through our long-range defenses. Yet it is only recently that the Air Force has come to accept this fact. Indeed, so certain was the Air Force that combat would occur at long ranges that it actually removed aerial guns from its planes in the 1950s. It was only with the advent of an F-15 that guns were again deployed on our first-line fighters.

In a close-in fight, it is generally preferable to have a small and agile plane rather than a large and less agile one like the F-15. Typically, the pilot of the smaller plane will spot the pilot of the larger plane earlier, and will therefore get in the first shot. In aerial combat, it is the first shot that counts. Consequently, it is better to have a plane specifically designed for aerial combat maneuvering, like the F-16, than a large plane which must fall back on dogfighting if long-range combat fails. While we should not give up on the quest for beyond-visual-range capabilities, we must not overdo it. In combat, the tried and true basics usually prevail over technology, whether we look at ground forces or air forces.

Frankly, the emphasis on beyond-visual-range combat can prove disastrous, for it requires that our planes be fitted with huge and powerful electronics sets. But when these sets — for instance, scanning and fire-control radars — are turned on, they act as a beacon for enemy pilots who look for and fire on radar signals. Moreover, so long as we intend to fire missiles at aircraft which are well out of sight, we must be sure that we have properly identified them — a challenge difficult to resolve.

Again, it is easy to overstate the degree to which this design emphasis creates problems. For instance, the Navy's F-14 fighter, which uses the extremely sophisticated Phoenix radar-guided missile, is a distinct asset even though it is very expensive. The problems of distinguishing friend from foe are far easier over ocean areas than over central Europe, and it is imperative that the fleet be protected as early on as possible. The F-14 is also an extraordinarily capable dog-fighter, and can perform well in the event that enemy planes leak through the screen of Phoenix missiles. But the Air Force F-15, by contrast, relies on a less capable radar-guided missile and is simply not as effective a dogfighter in close-in engagements as other aircraft in the American inventory.

This does not suggest that we should do without the capabilities of larger and more sophisticated aircraft. Nor am I proposing a neo-Luddite philosophy that technology is bad. But quantity counts for at least as much as quality in warfare, since several less capable and less expensive aircraft can gang up on one highly capable and highly expensive aircraft with devastating effect. So long as our Ar Force is outnumbered, this is an important consideration.

The third question posed by past design philosophies concerns the operational readiness of our tactical aircraft. It has been our practice to revolutionize all aircraft technologies in each new generation of aircraft, e.g. propulsion, avionics and airframe. But as aircraft become more sophisticated and complex, they become harder rather than easier to maintain. If the spare parts needed to service them are increasingly expensive, the problem of readiness is only compounded. So why not one revolution at a time?

But the point here is not to condemn high technology, but to point to a better way to use hi-tech R & D. For instance, everyone who has used a pocket calculator knows that technological revolutions can result in products that are reliable, labor-saving, and increasingly inexpensive over time. But when we expect each new generation of aircraft to press the margins of the state of the art in diverse areas, we should not be surprised to find that costs increase by several orders of magnitude while capabilities increase only by a small fraction.

Readiness Rates: Two Examples

This is currently reflected in the readiness rates of our first-line fighters. For instance, some 66 percent of our older

F-4Es were recently found ready to fly, but only 56 percent of our newer and more complex F-15s were ready. The chief problem was a lack of the expensive spare parts needed to maintain the F-15, meaning that some planes were held back in order to provide the spare parts for others. And worst of all, press reports in 1981 indicated that the F-15 is now suffering from degraded engine performance after continued use. It does us little good to buy the world's best and most expensive fighters if they cannot be maintained.

For the moment, the answer is simply to provide the spare parts needed to bring our fleet up to operational readiness. But the experiences of the past few years suggest that we emphasize more austere aircraft which can be produced in larger numbers, at least to supplement the more sophisticated planes such as the F-14 and F-15. In this respect, two aircraft stand out as contradictory examples: the Air Force F-16 and the Navy F/A-18.

The F-16 is a genuine success story. It was designed from the outset as a lightweight fighter characterized by high agility for close-in maneuvering. It was also decided to hold the unit costs of the plane down as much as possible. Yet the designers did not shirk when it came to incorporating promising technological innovations. The result was an extremely capable and relatively inexpensive fighter which is the finest of its type in the world. The F-16 is being coproduced by the air forces of four allied nations, and has been sold to several other countries as well. It is a classic dogfighter, with extreme maneuverability, but it has substantial growth potential as well and is already serving as an attack aircraft for interdiction missions. It is austere in its design, but it incorporates such novel and sophisticated technologies as a "fly-by-wire" control system. The F-16 cannot altogether replace the F-15, for it was designed as a low-cost complement rather than a one-for-one substitute. But the F-16 demonstrates that it is possible to achieve high capability at low costs rather than the opposite.

By contrast, the F/A-18 aircraft, now under development for the Navy and Marine Corps, has been plagued by problems. While it too was designed as a low-cost complement to a more capable aircraft, the unit cost of the F/A-18 now approaches that of the Navy's F-14. Ironically, the F/A-18 was derived from the prototype of a plane which was designed during the competition for the Air Force F-16 development program. Yet its costs have grown enormously, and it is not as capable as the aircraft which it is designed to replace. It would have been far better if the Navy had adapted the F-16 rather than proceeding with its own aircraft.

A substantial part of the problem appears to have been that the Navy designed the F/A-18 to be all things to all people. It is supposed to function as a highly-capable fighter, a light attack aircraft, and as the "low" end of a high-low mix with the expensive F-14 and A-6 aircraft. Yet the estimated unit cost for the plane has grown from $6 million per copy to roughly $25 million, and the end is not in sight. Although a large portion of the cost growth can be attributed to inflation in the economy, the fact remains that the F/A-18 threatens to become more expensive than the F-14 which it was designed to complement.

In developing a multi-mission aircraft, the Navy sought to consolidate several airplane types in one, thereby gaining both reduced inventories of spare parts and rapid across-the-board modernization. Currently, the Navy deploys the aging F-4 as a fighter-bomber, the A-7 as a light attack aircraft, and the A-6 as a heavy attack plane with all-weather capability. The Marines also use F-4s and A-7s, as well as the older and lighter A-4. There is no question that some of these planes need replacement, and there is no question that in theory it would be desirable to consolidate as many functions as possible in order to save money and simplify operations. The problem is that the F/A-18 has simply not worked out well.

For instance, the F/A-18 is inferior as a fighter to the F-14 and as an attack plane to the A-6. It was designed to be less capable, but it was also designed to be substantially less expensive. It isn't, so many analysts are led to suggest that it would be more sensible simply to cancel the F/A-18 and increase our purchase of F-14's as well as other aircraft. In fact, since the publication of my White Paper, the Navy announced that it would rely on the F-14 as its fighter, reverting the F/A-18 to an attack role.

But more disturbingly, the F/A-18 has failed to meet many of its technical specifications and is in some respects less capable than the aircraft it was designed to replace. For instance, the F/A-18 does not accelerate as well in certain speed ranges as was designed; it has become overweight and tends to approach a carrier deck too quickly for a safe landing under all conditions; its combat radius is limited when it is in the attack configuration.

When I first published these points in my White Paper in 1982, I was besieged by defense contractors and Navy officers trying to tell me why I was wrong and promising that any problems would be ironed out in the future. Unfortunately, my analysis has been borne out in spades.

During early 1983, after the Navy had decided to treat the F/A-18 as primarily an attack aircraft, the squadron which was flying the plane for training and evaluation purposes returned a recommendation that the F/A-18 not be built. The chief complaints centered around the weight problem which I had been told was trivial. Weight is so severe a problem that the F/A-18 cannot fly a minimum combat radius of 400 miles without carrying extra fuel tanks. But when fuel tanks are strapped on, ordnance comes off. This means that the plane delivers fewer weapons at a shorter range than the A-7 it is supposed to replace.

Worse yet, the plane simply cannot fly to the desired 550 mile range without aerial refueling. This means that the Navy must make a Hobson's choice between sending its aircraft carriers dangerously close to shore in order to cut down fuel requirements, or adding more aerial tankers to each carrier wing. Yet one of the most touted advantages of the F/A-18 is that it requires less "deck-spotting" — less room to park on the fixed space of a carrier deck. This advantage will disappear if the Navy must put more A-6 tankers aboard, for something else will have to be put off, probably several F/A-18s.

On the other hand, the F/A-18 does represent some advantages. In the first place, development of this plane will fill the inventory sooner than nearly any other option, particularly the upgraded A-7 which has been proposed by some analysts. Second, both Australia and Canada have negotiated for co-production rights, meaning that cancellation could cause some diplomatic difficulties. Finally, and perhaps most important, there is no question that the F/A-18 is more reliable and more easily maintainable than the F-14 or any other aircraft now in the Navy and Marine Corps inventory. At a time when there is so much concern over readiness, this is of major significance. The F/A-18 is easily maintained and it requires far fewer personnel than the F-14, the F-4 and the A-6, so its life-cycle cost will be relatively favorable.

In other words, the story is not altogether black and white. Full cancellation of the F/A-18, even if it were offset by purchases of F-14s, AV-8Bs, and more of the aging A-7s, would still not provide the Marine Corps with a new fighter. The Navy could obtain additional fighters at roughly the same cost as the F-18 by increasing its inventory of F-14s. This would provide more capability, but at the price of lower readiness. The Navy could also continue to purchase the A-7 light attack aircraft which, while somewhat less capable than the A-18, is only one-fourth the unit cost. And the Marine Corps would probably benefit by using the AV-8B with its vertical take-off capability rather than the A-18. But this would still leave the Marines with no fighter to replace the F-4s which it has flown for nearly 20 years.

Nontheless, I feel more strongly than ever that it would be better to stop the planned purchase of 1366 F/A-18 aircraft. For the Navy, the fighter mission can be performed by the more capable but equally expensive F-14s, and the attack mission can be performed by A-6s, A-7s, and AV-8Bs. For the Marine Corps, the attack mission can be performed by the more capable AV-8Bs alone. It *might* be desireable to purchase sufficient F/A-18s in the fighter configuration to give the Marines a replacement for the F-4. But it might be better to give them the best we have — the F-14. Overall, the F/A-18 program has shown the hazards of multi-mission aircraft, and it has failed to become the low-cost complement which it was designed to be.

In summary, we should not become over-simplistic in our quest for greater quantities of aircraft at the price of quality. But we should be aware of the hazards of pressing the state of the art as far as possible in each new generation of aircraft. Indeed, one of the hidden costs of our current procurement emphasis lies in the area of personnel retention. Repeated studies have indicated that fighter pilots are attracted to the military because they want to fly, not because they want the salaries paid to career officers. As a result, our best pilots leave the military when their job satisfaction decreases. The chief source of job dissatisfaction for a pilot is the growing restraint on flight time, a restraint caused by low readiness rates.

When our planes are so complex that they must spend more time on the ground than in the air, and when flight time is curtailed in order to hold down the costs of fuel and spare-parts, our pilots don't get the intense training that spells the critical difference in combat. Compounding this problem is that the training which prepares our pilots for beyond-visual-range encounters is necessarily far less realistic than the training for close-in encounters. Few pilots get the opportunity to fire their radar-guided Sparrow or Phoenix missiles, for the costs are so high that our inventories are already dangerously low. This means that training must necessarily be artificial, further contributing to morale problems.

Some Guidelines

In summary, the tactical air forces need to be steered in three directions. First, they must be encouraged in the future to come up with alternatives to the current design philosophy that the more complex the better. What works out elegantly in an electronics lab often fails to live up to its promise in the skies.

Second, however, they must continue to be provided with the money necessary to bring their stockpiles up to snuff. Currently, the Air Force holds fewer air-to-air missiles than would be necessary to confront Warsaw Pact aircraft in the first few days on an engagement, and the Navy has only enough Phoenix missiles for slightly more than one sortie apiece by our F-14s. The lack of spare maintenance parts means that far too many of our planes are being cannibalized to provide a source of supplies for other planes.

I am therefore disturbed that the Pentagon now proposes substantially increasing the number of wings in our tactical air arms. Plans have been announced to add two wings of fighters to the Air Force and two more to the Air Force Reserve by 1986. Each such wing is likely to comprise 72 aircraft, plus spares. And it is also planned to expand the Navy from 12 to 14 air wings by 1987 — before the new aircraft carriers are ready to receive them. Yet this expansion is requested when our current forces cannot be used fully for lack of spare parts, fuel, and pilots. The Pentagon should cancel its plans until a firm readiness foundation is built under tactical air. Savings are likely to run into the billions, and our combat effectiveness will be increased.

Finally, the tactical air services must endeavor to spend more money on training, and to make that training as realistic as possible. Analyses of aerial combat have repeatedly shown that it is the better trained pilot more than the superior aircraft which contributes to victory. For instance, German pilots in World War II ran up astonishing kill ratios against Russian pilots primarily because the Soviets were forced to send their pilots up with only minimal training. But because of funding constraints — constraints which arise in part from the characteristics of today's aircraft — our pilots spend only one-third the flight time as their Israeli counterparts do. Yet in aerial combat, as in ground combat, it is training that ultimately pays off. Thus, with the tactical forces, as with the rest of our military, it appears to make more sense spending our money on improving what we have rather than investing in what we don't have. Weapons in being are always more credible than blueprints.

One final program deserves comment — the Army's AH-64 Apache attack helicopter.

As I made clear in Chapter II, the Army's initial exploration of helicopters arose from its understandable frustration with the total lack of close air support being provided by TAC. As a result, the helicopter was seen as a politically allowable way to develop a surrogate close support plane.

Since then, the attack helicopter has come into its own as a distinct vehicle with which to fight tanks, a point made to me at considerable length (and with some heat) by General John Vessey, a former Minnesota National Guardsman prior to his selection as Chairman of the Joint Chiefs of Staff. What prompted Jack Vessey's ire was my recommendation that we phase back funding on the AH-64 to the levels originally contemplated, and that we consider cancelling the program outright.

I have no doubt that the AH-64 represents one of the finest attack helicopters the world will ever see. It is a technological marvel. It is designed to fly day and night, regardless of weather. The pilot wears an elaborate helmet which contains an eyepiece connected directly to the weapons systems via a computer. Thus, whenever the pilot turns his head to look at something — a view which is accentuated by forward-looking infrared radar and other optical wizardry — the guns follow his line of sight. The helicopter is heavily armored, and it can carry an awesome combat load, including the "fire and forget" Hellfire missile. In short, I am awestruck by the capability of the Apache. I simply question whether it is worth the cost.

The acquisition cost of an Apache is currently in excess of *at least* $12 million per copy. The Army plans to purchase more than 500 Apaches as the "high" end of a mix with its Cobra attack helicopters. In other words, we are looking at a total program cost of $6 billion, at the minimum.

The Apache was originally envisioned as a relatively inexpensive system. It has suffered from enormous cost growth to the deep concern of the Army itself, a point made emphatically on an ABC News "20–20" show on which I appeared. At the price, and given the fact that there are other means by which to provide close air support (such as the Air Force A-10), I continue to feel that the Apache, despite its merits, is more than we can currently afford.

10

Airlift and Sealift: Deploying, Supplying and Sustaining our Forces

"The problem of deploying, supplying and sustaining our troops is absolutely vital."

I have repeatedly noted that the United States is a global power with a maritime strategy, and that our forces are configured to fight — if necessary — as far from our shores as possible. But to do this, they must get to their theaters of operation in a timely manner, and must be assured of the supplies which will sustain them. Obviously, this problem is far easier when our forces are physically stationed overseas, as in Europe. But we cannot and should not have troops stationed everywhere, and even those which are already overseas will need reinforcement and supplies if they are to be effective. It is this task which falls to our "mobility forces," chiefly cargo planes and ships.

If anything has recently dramatized the importance of good airlift and sealift, it was the British expedition to the Falkland Islands. Thanks to good contingency planning, Britain was able to convert 54 civilian ships into military cargo carriers, and send them halfway around the globe. Could the U.S. have achieved the same success? I don't believe we could. First, we lack the planning. Second, events will not move so slowly as they did for Britain in the

Spring of 1982. In fact, it is one of the perverse ironies that as our lift deteriorates, we become more reliant on early warning of events. Yet we simply cannot predict such events as the seizure of our Embassy in Iran. In short, there is no substitute for lift so long as we have interests overseas.

Unfortunately, we face a delicate trade-off between opting for speedy supplies and sufficient supplies. The size of an M-60 or M-1 tank, for instance, is so great that even our largest cargo plane, the C-5A, can carry only one per flight. But a total reliance upon ships means that our supplies will arrive on the scene after days or weeks rather than hours. No matter which form of transport we choose, we will be required to keep open our lines of communication, which extend far beyond our shores and which are vulnerable to attack.

As a result, we now pursue a policy which combines pre-stocking of equipment where possible with a flexible mix of airlift and sealift. We cannot apply the same standards to each location, however, for it is far easier and more feasible to pre-store huge quantities of ammunition and other material in Europe, where we have an alliance, than, for instance, in the Persian Gulf area. Nor can we predict each and every location where we might need to rush troops in the event of an emergency. The problem of deploying, supplying and sustaining our troops is absolutely vital, but like its cousin, O&M, it always receives far less attention than new weapons programs.

Pre-stocking of materiel is a particularly attractive option when it is available, for it means that we can keep our troops at home and fly them to their supplies if they are mobilized. This is far cheaper and far more politically desirable than stationing troops around the world. But there are some distinct limitations to this approach. It requires that we divert a complete set of equipment from our active inventory, which drives up costs and occasionally short-changes training. Just as important, pre-stocked materiel is relatively inflexible, and it must be re-transported if it is needed elsewhere. Finally, of course, pre-stored equipment is generally kept in large depots, the locations of which are impossible to conceal. Consequently, there is every likelihood that, unless our depots are actively defended, they will have been destroyed by advancing forces by the time our own troops arrive.

Nonetheless, pre-stocking offers an inexpensive means of providing speedy reinforcement in likely areas of conflict. In order to support the Rapid Deployment Force, the Defense Department would like to store as much as 130,000 tons of equipment aboard pre-positioned supply ships in Southwest Asia. Given the distances involved from the United States to the region this is a sensible approach. For instance, if 30 days worth of supplies for three Marine Amphibious Brigades were already stored on supply ships anchored at Diego Garcia, the British island in the Indian Ocean, these supplies could be on the scene in the Persian Gulf within seven to nine days of notification. To fly the same amount of materiel directly from the United States would demand nearly 1250 sorties by our largest cargo planes. Sealift, while requiring only 130 sorties, would require at least 19 days from notification.

The Administration has planned to provide for as many as 12 maritime prepositioning ships in the Persian Gulf to augment as needed the seven small ships stationed there by the Carter Administration. In addition, we have purchased eight SL-7 fast cargo ships to provide rapid augmentation of supplies to any task force sent to the Gulf. Finally, there are long-term plans to increase amphibious fleet elements like landing ships, landing docks, and cargo vessels from the current level of 61 active and six reserve vessels. This fleet is now sufficient to provide needed lift for a total force of less than 1.15 MAF's (Marine Amphibious Forces), and could require as much as 45 days to assemble prior to embarkation. Our planning calls for a capacity of 1.5 MAF's, and it will require money, for when the Marine Corps recently adopted more helicopters, lift requirements were increased for the same size unit.

The bulk of our prepositioning effort, however, has traditionally occurred in Europe, an effort begun under the Kennedy Administration. Materiel is stored in amounts and configurations which permit a known unit of troops from the United States to disembark, marry up with their equipment, and deploy as quickly as possible. This program, known as POMCUS (Prepositioning of Material Configured for a Unit Set) has thus far resulted in the stationing of equipment for slightly more than four divisions in Europe, and two more division-size depots are planned for. With the POMCUS program, we can provide for speedy reinforcement of the NATO alliance by flying troops to Europe on any available plane, rather than waiting for the loading and unloading of heavy equipment.

Unfortunately, POMCUS funding has become a political football in recent years. For instance, we painfully negotiated an agreement with the Germans which would, for the first time, have seen them contributing both money and personnel for our POMCUS effort. In return, we were to expand the number of POMCUS sets in Europe. This provision was set aside by Congress in a fit of pique over the burden-sharing issue. It shouldn't have been, for we were cutting off our nose to spite our face.

Regardless of the level of support involved, POMCUS requires that we have sufficient airplanes available, and that airports be available to receive them in the event of hostilities. Both of these requirements are becoming increasingly problematic.

For instance, our fleet of long-range transport aircraft currently comprises 234 C-141 aircraft, 70 C-5A aircraft, and 240 passenger liners and 127 commercial cargo planes which can be activated as part of the Civilian Reserve Air Fleet (CRAF). The CRAF program — which provides small subsidies to airlines to strengthen their airplanes and turn them over to the military in an emergency — is illustrative of our long-standing pattern of seeking both organic military and civilian reserve transport.

While this total fleet of 671 aircraft appears large, it suffers from a number of problems. First, a relatively high percentage of the planes are deadlined at any given time for maintenance or overhaul. Second, it is by no means sure that the lengthy runways we need to land these aircraft —

particularly the civilian reserve fleet — will be left intact in the event of an emergency. Finally, much of our military airlift might very well be needed elsewhere, for instance to transport both troops and equipment to other theaters.

This last is a particularly pressing point, for while military airlift is prompt, it is severely limited in capacity. During a recent exercise, for instance, it took fully ten days to fly only 7200 troops and their equipment from Fort Carson, Colorado, to Europe. During the summer of 1980, when American troops were sent to Egypt as part of an exercise, it took 28 C-5A sorties, four C-141 sorties, and 32 KC-135 tanker aircraft sorties simply to sustain twelve F-4E fighters which were flying out of Egypt. And during the 1973 Middle East War, when the United States undertook to resupply Israel, our Military Airlift Command found that it took six tons of fuel to carry one ton of supplies. Moreover, access to refueling sites was a problem, which meant that we had to rely on scarce Israeli fuel simply to return our planes for more loads.

Much of the difficulty in airlift is caused by the tendency of Army and Air Force planners to work independently of each other. Typically, the Army procures equipment which is too large to fit into available transport planes. For instance, the M-60 and M-1 tanks are so large that they will not fit aboard a C-141 transport plane at all, and only one can be carried on a C-5A. Some estimates indicate that so much of the Army's equipment is outsized or oversized that 50 percent of an armored division's supplies must be carried aboard C-5As, and 39 percent aboard C-141s. Only eleven percent of a typical armored division's materiel can fit aboard the C-130 tactical (or "intra-theater") transport airplane. Because of these constraints, and because of shortages of transport aircraft, it is estimated that we suffer a shortfall of some 20 million ton-miles per day in airlift of outsized cargo — a shortfall that would require an additional 88 C-5As to make up, more than we currently own.

The bottom line here is the fact that regardless of how much we build up our fighting forces, we will not gain in real defense unless we obtain more adequate and appropriate transport. Consequently, airlift must be a much higher priority in terms of our overall defense expenditures.

At the moment, the Air Force is taking several steps to improve its lift capacity. First, it is stretching the fuselage of its C-141 to provide an additional 30 percent cargo capacity. The plane is also being fitted with in-flight refueling systems, meaning that it will no longer be dependent on the good will of other countries for refueling sites or "stepping stones." This is an eminently sensible investment.

Second, the C-5As are being outfitted with new long-life wings in order to extend their usefulness. It was found that the original wing of the C-5A had an effective life of 8000 flying hours. The new wing will provide for 30,000 hours of flying time before replacement is needed.

The third step being taken, however, is not so laudable. The Air Force — after a fierce battle which pitted the Congressional delegations from Georgia (Lockheed) and Washington (Boeing) against each other generating some of 1982's most famous lobbying and consequent changes in regulations and hundreds of thousands of dollars in advertising claims — obtained authority to build 50 more C-5 cargo planes. The result: A huge waste of scarce dollars and the wrong plane. The battle substantially delayed adoption of a far superior and far more needed plane, the C-17.

The issue was complex, but it reduced to one key point. Although we are short of airlift in all capacities, our greatest need according to the Defense Department is for planes which are capable of hauling outsize cargo like tanks into short airstrips within a given theater. This is not an abstract mission. In the event, for instance, that the Rapid Deployment Force were sent to the Persian Gulf, our aircraft could land only at airports far back from the likely scene of fighting. Cargo would then have to be trucked hundreds of miles. If it could be flown by a plane like the C-17, the savings in time would be impressive. And if the cargo could be flown directly from the U.S. into short airstrips, rather than off-loaded and re-loaded in a theater of operations, the gain would be immeasurable. The C-17 promised this kind of performance.

Instead of waiting for the C-17, however, the Air Force chose to build more of the C-5's. The issue was compounded by two things. First, many people carried bitter memories of the original C-5, which was substantially flawed and vastly over its target price. Second, it was proposed that the Air Force could do much the same job as it sought by converting civilian 747 cargo planes. Lost in the shuffle, I fear, was the focus on the real issue — intra-theater outsized lift.

As important as airlift is, however, it is sealift that provides over 90 percent of our supply capacity. Only ships have the size necessary to carry huge volumes of equipment, a fact of life that will remain with us forever. Although cargo planes can get relatively *small* volumes of materiel to distant locations faster than ships, ships can get *large* volumes to the same location as fast or faster than planes. This is important, for successful military operations require a "critical mass;" troops should not be sent ashore piecemeal. Instead, they should be committed in force. Thus, one estimate indicates that if we wish to commit the 101st Airborne Division all at once, with its supplies and equipment, sealift can get the full division a distance of 6000 miles two days sooner than existing airlift.

While sealift is critical, it is inadequate at present. This is true both of Navy-owned transport ships and, more importantly, in terms of the Merchant Marine. While the relatively small fleet of Navy transport ships is being augmented, it is the Merchant Marine which will carry the bulk of our cargo to Europe or other locations. Without a Merchant Marine of sufficient size, NATO's lifeline is effectively cut. For instance, we might need as many as 3000 ships to resupply NATO in an extended engagement, but as of June, 1982, we have only 575 merchant ships of which 69 were in overhaul, and of which only 263 dry cargo vessels and 159 tankers were militarily useful. In fact our Merchant Marine now ranks tenth in the world in terms of size, and fewer than twenty of the world's dry bulk carriers now fly an American flag. By contrast, the Soviet Union, which is far less dependent on seaborne trade, has a merchant fleet of some 2500 ships, second only to Liberia's 2600.

The role of the Merchant Marine is not widely appreciated, but it bears some investigation for it is a vital asset in the event our military operates overseas. In recognition of this, President Roosevelt convinced the Congress to pass the Merchant Marine Act of 1936, which explicitly states that the Merchant Marine is necessary for our national defense and should therefore be capable of serving as a naval auxiliary in an emergency. The wisdom of this act was confirmed in World War II, when our fleet of "Liberty ships" — mass produced in record time — provided both us and our allies with necessities ranging from food to oil to military supplies. At the peak of World War II, we had a Merchant Marine of 1700 vessels. Our merchant fleet is now less than one-third that size, and it carries only 3.6 percent of our total trade Moreover, because today's ships are much larger than the Liberty ships of 40 years ago, each one sunk by submarines or mines would carry a higher percentage of our total supplies. Remember that in World War II, the small German submarine fleet sank ten percent of our merchant vessels.

Our overall sealift capability derives from several programs. First, the Navy's Military Sealift Command owns a total of 143 vessels, of which 21 are tankers and 33 are dry cargo carriers. Most of these ships are manned by civilian crews. Many are tied up with the Strategic Petroleum Reserves; many others are useless for cargo.

These ships are supplmented by some 171 mothballed vessels in the National Defense Reserve Fleet of which 130 are of World War II vintage requiring extensive work to become seaworthy. We have a theoretical capability — which is probably unrealistic — to bring the entire Reserve Fleet out of mothballs in 60 days. A more feasible goal, however, calls for being able to activate 29 of these ships in five to ten days.

In turn, the National Defense Reserve Fleet of Navy-owned vessels is supplemented by 116 merchant ships which could presumably be called into service as part of the Sealift Readiness Program, the maritime counterpart to the Civil Reserve Air Fleet. However, the administrative procedures for callup are extensive, and could consume a minimum of 30 to 45 days, despite the fact that the owners accepted huge shipbuilding subsidies in return for agreeing to permit callup in an emergency.

Finally, the Maritime Administration is empowered, in extraordinary emergencies, to requisition for service all merchant vessels which are either U.S.-owned or which fly a U.S. flag. Such requisitioning, of course, is an extreme step, and the law requires that it be done with the needs of the domestic economy in mind. It could provide a theoretical maximum of 263 dry cargo carriers and 159 tankers.

In addition to these four programs, NATO has an agreement which specifies that up to 400 of its collective merchant assets can be pledged to the United States in the event of an emergency in Europe. But the sum total of *all* these programs — Sealift Command, NDRF, Sealift Readiness Program, requisitioning, and NATO pledges — would produce a merchant fleet of only 1050 vessels, assuming that everything worked perfectly and that no ships were needed for the economy. These assumptions, of course, are simply unrealistic. Even if they were not, our capacity is perhaps one-fifth of what might be needed. While it is unlikely that we would need a huge sealift capacity except in the event of a war in NATO, the fact is that we are some 70 to 80 percent short of sealift requirements for "worst case" scenarios like two major simultaneous conflicts.

Increased investment in sealift will require both considerable planning and much time. But it is more than worth it, for it does not require more than modest amounts of military spending. The great bulk of our sealift is and will continue to be provided by the merchant fleet, and not by the Military Sealift Command. An investment in the Merchant Marine is something which benefits all aspects of our economy, particularly as we become even more dependent on foreign trade. Unlike other elements of our overall defense posture, the Merchant Marine is worth more to our peacetime economy than it is as a defense system.

11

The Reserves and National Guard: A Defense Bargain

> *"For one-twentieth of our defense budget we get roughly one-third to one-half of our total defense."*

The National Guard and the Reserve provide the fundamental underpinning of our All-Volunteer Force. The National Guard in particular continues in the uniquely American tradition of the citizen-soldier which dates back to the Minutemen at Concord and Lexington.

When the Gates Commission recommended to President Nixon in 1970 that we adopt an All-Volunteer Force rather than rely on a peacetime draft, it based its judgment on two crucial qualifications. First, it was strongly recommended that we keep in effect a system of registration so that national mobilization could proceed as quickly as possible in the event of an emergency. We have, of course, resumed registration after a lapse of several years. Second, the Commission recommended tht we preserve a strong system of Reserve and Guard units and of Individual Ready Reservists — those who do not belong to a particular unit — to augment the regular career forces. Together, these two backups would provide us with the necessary means to reinforce the two million men and women in the career services.

Most Guard and Reserve units are structured along the lines of their parent services. However, a far higher proportion of our Guardsmen and Reservists than of our regular forces are trained in direct combat skills. Thus, a huge proportion of our overall combat capability in the event of war will come from the Guard and Reserve rather than from the regular services.

For instance, the National Guard provides one-third of the Army's wartime combat divisions, 72 percent of its separate brigades, and 63 percent of its infantry battalions. The Air National Guard provides 60 percent of the interceptor squadrons which would protect our territory from attack by enemy aircraft. In addition, it provides 30 percent of tactical airlift and 25 percent of tactical fighter aircraft.

Air National Guard transports played a key role in both the evacuation of American students from Grenada and the transport of wounded Marines after the terrorist attack in Beirut in October, 1983.

Just as important, because so many of our Guard and Reserve units are meant to be mobilized for direct combat, they are often leaner and much tougher than regular units. There is a much higher "tooth-to-tail" ratio in our Guard and Reserve than in our regular forces, where even combat divisions put relatively few men on the line, holding back others for support. So our reliance upon the Guard and Reserves is heavy, and we get a great deal of potential out of a very small force.

In addition, a substantial number of rare but vital skills are found chiefly in Guard and Reserve units rather than among the regular forces. For instance, many specialized engineering functions simply do not exist in the active services. The well-digging companies which will be vital to our Rapid Deployment Force are in the Guard and Reserves. Closer to home, the 148th Tactical Reconnaissance Group, an Air Guard unit based in Duluth, Minnesota was recently named a component of the RDF. Soon, Duluth will assume responsibilities for a fighter-interceptor squadron.

The quality of the personnel now in Guard and Reserve units is exemplary. Quite simply, some of these units are better than their active service counterparts. In the first place, their personnel are highly motivated and are volunteers in the truest sense of the word. No one joins the National Guard to get a job; he or she typically joins while holding down a full-time civilian job. Many who join do so because they wish to hone military skills learned in the regular forces. Stories are repeatedly told of fighter pilots who leave the Navy or Air Force in disgust but join a Guard or Reserve unit where they actually have more flying time. Many Guardsmen and Reservists are veterans of combat in Vietnam, while many regular service personnel are not, a further factor contributing to the skill of the Guard and Reserves.

In addition, the maintenance technicians assigned to the Guard and Reserve are typically better than those in the regular services. Equipment assigned to Guard and Reserve units lasts longer and operates more reliably than identical equipment assigned to regular units. The National Guard relies upon career civilian technicians who must agree to join the Guard so that they can be mobilized along with their equipment in an emergency. These technicians, and those who serve in the Reserves are typically better qualified and more experienced than technicians in the regular services. Because they work on the same items for many years, they get to learn the idiosyncracies of each piece. This means they are more prone to diagnose and repair a malfunction than to discard the equipment.

Finally, of course, Guard and Reserve units are comprised of individuals who are from the same vicinity, who have served with the same unit for many years, and who therefore have high unit cohesion. This means that they can work together as a team and are motivated to perform well.

But with all these attributes, the Guard and Reserve suffer some readiness problems, deriving chiefly from shortages of equipment and, in some cases, personnel. The equipment problem is serious and it is demoralizing and must be a priority commitment in Department of Defense allocations.

It was recently estimated that most National Guard units have only about 70 percent of the equipment they would need upon mobilization. The best-equipped units are those which are designated as "round-out" battalions for regular units which are short-handed. But even many round-out units are under equipped. Because of this, it is feared that many Guard and Reserve units would not be able to mobilize as quickly as needed. Ironically, at a time when we are more dependent than ever on these units, we have let their readiness slip. We can't count on anyone else; we should fund the Guard to the fullest extent possible.

Far too many Guard and Reserve units continue to be equipped with hand-me-downs. They are therefore insufficiently trained on the equipment which they might be given upon mobilization, for instance from the military stockpiles in Europe. When they must rely upon the training equipment assigned to their units, their ability to operate on a modern battlefield will be severely limited. For instance, many of the radios assigned to Guard units are so obsolete that they cannot communicate with the radios assigned to regular units.

Finally, equipment shortages and cuts in funding for training mean that many Guard and Reserve units cannot take advantage of their unique skills, and risk being maldeployed or — worse — broken up for use as individual replacements in the event of mobilization.

To take another example close to home, the 47th Infantry Division, headquartered at Camp Ripley, Minnesota, is uniquely qualified for winter warfare operations. Camp Ripley is an ideal location for winter training, and it is located in the Continental United States rather than Alaska. As a result, many regular troops are rotated through Ripley each winter rather than undergoing the costs of training in Alaska. The 47th Division, comprised of Minnesotans accustomed to cold weather and trained for winter operations, annually exchanges a large number of personnel with the Norwegian armed forces for joint training in arctic warfare. Yet the Division does not have sufficient gear to deploy as a winter warfare unit. This is a foolish attempt at false economy. Lest one think I am only concerned about the Minnesota Guard, I should add that similar false economies plague many of our National Guard units around the country.

All of our armed services could benefit from winter training, which usually takes place at great cost in Alaska. But Camp Ripley could easily and inexpensively be expanded for additional training of active service troops. Funding shortages, however, have kept the 47th Division and Camp

Ripley from their full potential, and this represents a lost opportunity for the sake of a false economy. Such situations are repeated throughout the Guard and Reserve.

In terms of manpower, the situation is also disturbing, particularly in the pool of Individual Ready Reserves (IRR). The IRR represents people with prior service who can be called up in an emergency. It is this pool of replacements which is necessary for sustained operations. Formerly, the IRR was largely filled by draftees in the last two years of their six-year overall obligation. I will not support restoration of the draft simply to fill out the IRR. But I believe that we can and should provide incentives for service in this category. Service in the IRR demands very little, if any, peacetime obligation outside of basic training, so the sacrifice for service need not be substantial. And the IRR would be an ideal form of service for those, such as physicians, who have skills that would be vitally needed in the event of a major emergency but who do not wish to commit large portions of their peacetime lives to training.

Many Selected Reserve and Guard units are also severely undermanned, although this situation is not universal. We have seen an encouraging reversal of the downward trends of previous years, thanks largely to the efforts of a late Minnesotan, Harold Chase, who served as Deputy Assistant Secretary of Defense for Reserve Affairs. Dr. Chase's work must be continued. We should ensure that sufficient incentives for service are offered, a role which state governments can help fill with the National Guard. And we should consider permitting units to recruit over their authorized strength where this is possible, for it will bring the total number of our Guardsmen and Reservists up.

In summary, I strongly believe in bolstering the Guard and the Reserves. They are a vital component of our overall defense, and the Guard doubles as a local militia which is called upon for assistance whenever disaster strikes. Most important, an investment in the Guard and Reserves is an investment with "high leverage." For one-twentieth of the defense budget we get roughly one-third to one-half or our total defense. It is hard to find a better bargain.

Index

A-4 214, 220
A-6 214, 220, 222
A-7 214, 220, 221, 222
A-10 215
A-18 222
AH-64 Apache 224, 225
Abrams tank 162
Aegis cruisers 176, 185, 189, 190, 194
Afghanistan 4, 23, 24, 134
Air-Land Battle 172, 173
Air National Guard 238
ALCM 125
ALPHA submarine 182
Anzio 178
Apache 224, 225
Arnold, General 'Hap' 53
AWACS 110, 156, 210
AV-8B Harrier 193, 201, 222

B-1 102, 103, 104
B-17 65
B-52 101, 102, 195
Backfire bomber 182
Battle of the Bulge 170
Belknap, U.S.S. 186
Berlin Brigade 15
Bi-polarity 2
BMD tank 200
Boeing 232
Boyd, Colonel John 170
Brown, Secretary of Defense, Harold 21, 43, 140
Bundy, McGeorge 148
Burdick, Eugene 151
Butler, Sir William Francis 80

C-4 105
C-5 233
C-5A 104, 228, 230, 231, 232
C-17 232, 233
C-31 systems 98, 99, 100, 101
C-130 231
C-141 aircraft 230–232
Camp Ripley 240
Canisteo 184
Carson, Fort 231
Carte Blanche study 120
Carter, Pres. Jimmy 26–28, 36, 65, 78, 102, 112, 125, 126, 137, 138, 147, 156, 184
CAT 156, 157
Catholic Bishops 139
CENTCOM 206
Chase, Harold 241
Chosin Reservoir 199
CINC-CENT 206
CENCEUR 206
CG-47 Aegis cruisers 189, 190
CINCPAC 206
Circular Error Problem (CEP) 92

Civil Reserve Air Fleet (CRAF) 230, 234
Cobra helicopter 225
Cohen, Senator Bill 142
COHORT Program 161
Comprehensive Test Ban Treaty 147
Conference on Security and Cooperation in Europe 151
Conventional Arms Transfers (CAT) 156, 157
Cranston, Alan 102
CTBT 147
Cuban Missile Crisis 144

DD-963 destroyer 189
DD-993 destroyer 189
DDGX destroyer 189
DDGY destroyer 190
DDG-51 destroyer 189, 190
Diego Garcia 229
Doolittle, Jimmy 53
Drell, Sidney 106
Dulles, John Foster 118
Duluth 238

Eisenhower, President Dwight D. 118, 170
Elath destroyer 182

F-4 214, 220, 222
F-4E 231
F-14 178, 179, 193, 214, 217, 219, 220, 221, 222, 224
F-15 110, 156, 216, 217, 218, 219, 220, 221, 222, 224
F-16 219, 220
F/A-18 215, 219, 220, 221
47th Division 240
Fail Safe 151
Falkland Islands 12, 169, 178, 193, 227
Fallows, James 65
Flexible Response Doctrine 121, 122, 148
Ford, President Gerald 125, 146
Freeze campaign 133

Garwin, Richard 106
GLCM 125
Glenn, John 102, 103
Goldwater, Barry 102
Ground Zero 133
Guam Doctrine 155
Gumbleton, Bishop 139

Hart, Senator Gary 143
Hayward, Admiral Thomas 'Chick' 180
Hellfire missile 225
Helsinki Agreement 151
Hopmann, Prof. P. Terrence 150
Hydra 107

ICBM 89, 90, 91, 92, 93, 94, 95, 103, 105, 111, 113, 114, 115
Ikle, Fred 58
Individual Ready Reserves 241
International Institute for Strategic Studies 126
International Security Assistance 155
IOWA, The battleship 193
Iran 228
Iran-Iraq war 6
IRR 241

Jackson, Senator Henry 152
Jackson, Stonewall 170
Johnson, President Lyndon 27, 43
Joint Chiefs of Staff 49, 50, 51, 52, 53, 206, 225
Jones, General David 53, 55

Kamikaze 181
KC-135
Kennan, George 148
Kennedy, President John F. 27, 43, 96, 119, 142, 229
Kennedy, Senator Ted 137
Kiev carriers 182
Kissinger, U.S. Sec. of State Henry 29
Korea 199, 215

Laird, Melvin 20, 43, 110
LAMPS III helicopter 190
Lanchester, F. I. 66
Lehman, John 105, 194
KGDX assault ship 193
Liddell-Hart, B. H. 16, 168

Lockheed 232
Long-Range Theater Nuclear Forces 128
LOS ANGELES, submarine 194

McGovern, George 102
McNamara, Robert 43, 148

M-1 tank 162, 163, 201, 228, 231
M-2 164–165
M-3 164, 165
M-113 164, 165
M-60 201, 231
M-60A3 162, 228
MacArthur, General Douglas 170, 200
Mac Dill Air Force Base 203
Maginot Line 88, 168
Mahan, Alfred Thayer 30, 188
Marine Amphibian Force 198, 199, 203, 229
Massive Retaliation Doctrine 118
Mathias, Senator Charles 108
MBFR Talks 147, 148, 150
Merchant Marine 233, 234, 235
Meyer, General Edward 'Shy' 58, 159, 160, 161, 162, 167
Middle East War 144, 231
Midgetman 115, 141, 143
Military Airlift Command 231
Military Sealift Command 234, 235
Minuteman 142
Minneapolis-St. Paul, submarine 109
MIRV 94, 95, 112, 141, 142, 143, 145
Mitchell, Billy 53, 54
Mondale, Vice-President Walter 149, 150
Mutual and Balance Force Reduction 147, 148
MX Missile 59, 71, 98, 107, 110, 111, 112, 113, 114, 116, 139, 141, 142

National Defense Reserve Fleet 234, 235, 238, 239, 240
National Guard 80, 237, 238, 239, 240, 244
NEW JERSEY, battleship 193
NIMITZ, U.S.S. 37, 38, 191
Nixon, President Richard M. 27, 155, 165, 237
Nunn, Senator Sam 142, 152

148th Tactical Reconnaissance Group 238
O'Connor, Bishop 139
Office of Secretary of Defense (OSD) 41, 42
OHIO, Submarine 106
OKEAN 183
Okinawa 178, 199

PD-59 96
Partial Test Ban Treaty 145
Peaceful Nuclear Explosives Treaty 146
Pershing missiles 140
Physicians for Social Responsibility 133
PNET 146
POMCUS 230
Poseidon 105, 107

Rapid Deployment Force (RDF) 204, 205, 206, 207, 208, 209, 210, 232, 238
Rapid Deployment Joint Task Force 202, 203, 204, 207, 208, 211
Record, Jeffrey 207
Reagan, President Ronald 26, 27, 28, 32, 47, 59, 98, 104, 108, 109, 110, 112, 113, 114, 115, 138, 142, 143, 144, 145, 146, 156, 176, 184, 190, 204
Rogers, General Bernard 108
Roosevelt, President Franklin D. 12
Roper Organization 136
ROTC 80

SAC 55
Sadat, President Anwar 23
SALT I 36, 96, 110, 111, 135, 152
SALT II 126, 138
Schelling, Thomas 97
Schleisinger, James 140, 203
Schmidt, Chancellor Helmut 126, 127, 128

Scowcroft Panel 114, 115
Sealift Readiness Program 234, 235
Senate Select Consultive
  Commission 152
Sergeant York system 163
SL-7 cargo ships 228
SLCM (Sea-launched cruise
  missiles) 107, 108, 109, 112
Smith, Gerard 148
Spaatz, General Carl A. 53
SS-18 114
SS-20 124, 127
SSN-688 submarine 190
Standing Consultive Commission
  152
START talks 142, 143
Strategic Forces, President's
  Commission on 114
Shallow Underwater Mobile
  concept (SUM) 106

Tactical Air Command (TAC) 55,
  213, 214, 225
Threshold Test Ban Treaty 146
Ticonderoga Class 176
Tomahawk cruise missiles 107,
  190, 193
Tower, Senator John 113
Triad 90, 99, 106
Trident I 105, 106, 108
Trident II 71, 105, 106, 108
TTBT 146

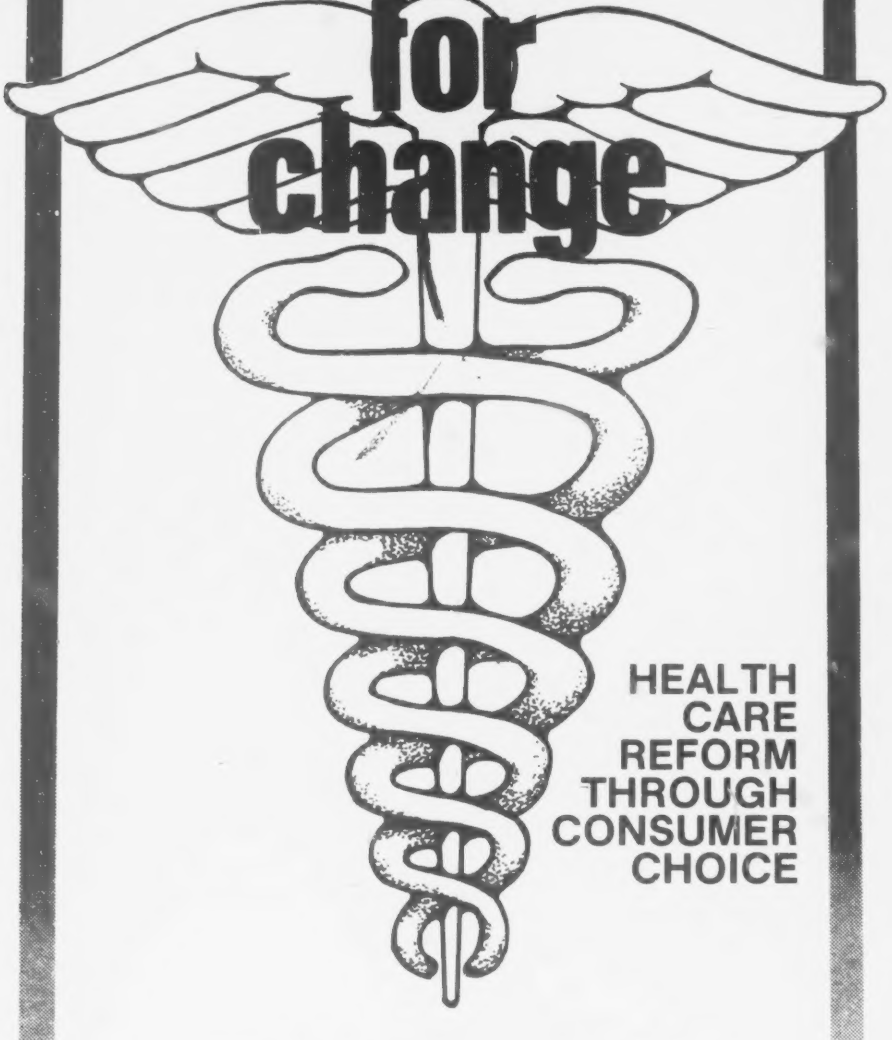
University of Minnesota 150
UN Resolution 242 139

Vento, Congressman Bruce 140
Vertical Take-off Aircraft (VSTOL)
  185, 193
Vessey, General John 225
Vietnam 27, 130, 137, 155, 159,
  162, 199
Vladivostok accords 137
von Clausewitz, Karl Maria 1, 9,
  12, 13

Warsaw Pack 24, 126, 129, 130,
  147, 223
Watergate 137
Weinberger, Caspar W. 29, 42, 97,
  193
Wells, H. G. 11
Wheeler, Harvey 151
White Paper, 166, 173, 194, 221
Worden, USS 185
WW I 3, 134, 175, 195
WW II 3, 48, 49, 58, 175, 176, 178,
  179, 182, 194, 195, 215, 224, 234

Zagreb Mountains 209
Zumwalt, Elmo 57, 195

Prescription for change



HEALTH
CARE
REFORM
THROUGH
CONSUMER
CHOICE

a collection of speeches by

U. S. SENATOR
DAVE DURENBERGER
CHAIRMAN, SENATE HEALTH SUBCOMMITTEE

SPECIAL
COUNSEL
HEARING
EX. 449

Prescription for change

"The first principle of government is that you leave the next generation — your children — with opportunities for choice which are no less than your own."

THOMAS JEFFERSON

Prescription for change

HEALTH
CARE
REFORM
THROUGH
CONSUMER
CHOICE

a collection of speeches by

U. S. SENATOR
DAVE DURENBERGER

CHAIRMAN, SENATE HEALTH SUBCOMMITTEE

with a foreword by Donald C. Wegmiller
Chairman-elect, American Hospital Assn.

Piranha Press, 4504 Excelsior Blvd., Minneapolis, MN

Prescription
for
change

Published by Piranha Press
4504 Excelsior Boulevard
Minneapolis, Minnesota 55416

Printed by Nahan Printing, Inc.
St. Cloud, Minnesota
Copyright © 1986 by Dave Durenberger

On the cover . . .

The front cover was designed by A.J. Gillen. The design was adapted from the Caduceus, a winged staff surrounded by two snakes. This symbol was derived from Mercury's staff in ancient Greek mythology which was carried by medics into battle as a sign of neutrality. It is now the official symbol of the U.S. Army Medical Corps., the Navy Pharmacists Division, and the U.S. Public Health Service.

Dedication

This book is dedicated to my four sons, Charlie, David, Michael, and Danny, for whom the concept of Generational Equity is a value which will determine their future.

And, to the dedicated men and women who labor daily in the health care professiona, and who are both initiators and instruments of change.

"Leadership, Durenberger style, is not achieved through political maneuvering, but rather through hard work, true knowledge of the issues, and the reliance on basic principles of concern for future generational equity, for the individual, and for improving our basic American way of life."

Donald C. Wegmiller
Chairman-elect, American Hospital Association

Prescription for change

About the Author

DAVE DURENBERGER was born in 1934 in rural Collegeville, Minnesota, where his father was athletic director at St. John's University. He later graduated from St. John's and received a law degree from the University of Minnesota.

Senator Durenberger served as an officer in Army Intelligence after graduating from law school. He then practiced law, served as executive secretary to Minnesota Governor Harold LeVander, and was legal counsel and public affairs officer for the H.B. Fuller Company in St. Paul.

Senator Durenberger was elected to the U.S. Senate in 1978, to fill the remaining four years of the term to which the late Senator Hubert H. Humphrey had been elected. In 1982, he became the first Minnesota Republican to be reelected to the U.S. Senate in 30 years.

Since his election, Senator Durenberger has taken the lead on a wide range of legislative initiatives. He has earned the reputation as an innovator in redefining the role of government and as a leader in efforts to make public services more efficient and more responsive to people's needs.

Senator Durenberger has chaired the Health Subcommittee of the Senate Finance Committee since 1981. From this position, he has led the drive nationally to improve the nation's health care system through increased efficiency, competition, and consumer choice. He was instrumental in adoption of the Medicare "prospective payment system" which encourages efficiency in hospitals by reimbursing them based on a preset fee for each diagnosis. He also has worked to implement the new Medicare "voucher" program allowing senior citizens to trade traditional Medicare coverage for a private health plan. And, he has authored legislation to provide incentives for all Americans to practice good health habits, to discourage preventable illness and accidents.

In addition to serving on the powerful Senate Finance Committee, Senator Durenberger currently chairs the Senate Select Committee on Intelligence. He is also a member of the Senate's Committees on Environment and Public Works and Governmental Operations. On the latter two committees, he chairs key subcommittees on Environmental Oversight and on Intergovernmental Relations.

Senator Durenberger's wide-ranging legislative interests are evident from his membership on the Advisory Commission on Intergovernmental Relations (ACIR), and the Committee on Federalism and National Purpose. He also serves as co-chairman of the National Water Alliance and the Great Lakes Task Force of the Northeast-Midwest Senate Coalition.

In the past year, Senator Durenberger has founded two new national foundations: Americans for Generational Equity (AGE), created to protect America's fiscal and physical resources for future generations; and The Foundation for Future Choices, designed to promote consumer choice in public services.

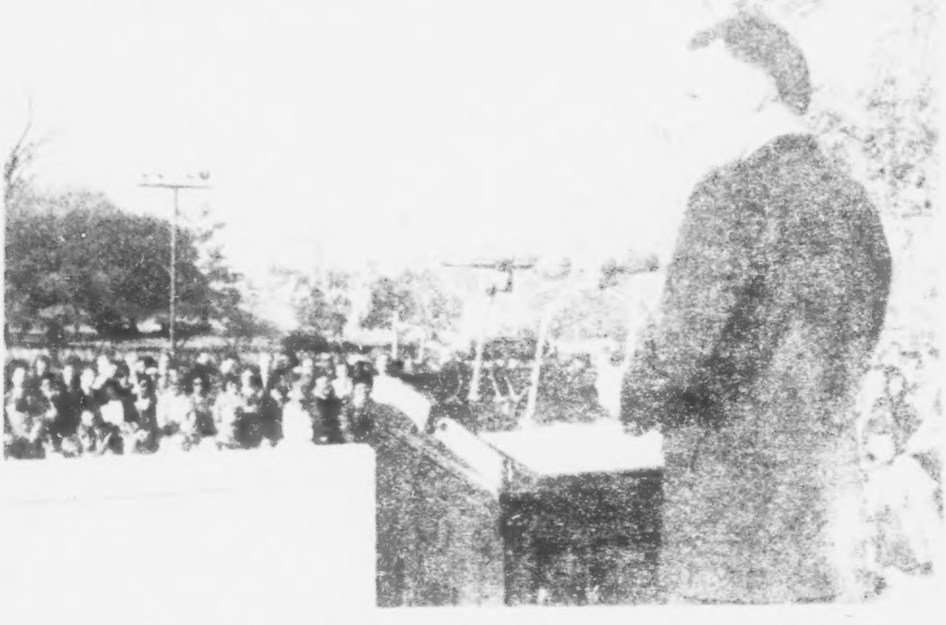
A prolific writer and public speaker, Senator Durenberger was called "One of the best-informed, most impressive Senators on a wide variety of issues," by the 1986 edition of the authorative **Politics in America.**

Prescription for Change is Senator Durenberger's second book. It follows **Neither Madmen Nor Messiahs** (1984), which called for wiser use of defense dollars through a more consistent U.S. defense policy. Senator Durenberger is now at work on a third book which will deal more explicitly with his vision for the federal government's role in promoting health system reform.

Senator Durenberger receives an autograph from [illegible] [illegible] documentary produced by the [illegible] [illegible] Below, Senator Durenberger [illegible] [illegible] Aaron Petersen, 1987 [illegible] Heart Fund Poster [illegible] [illegible] Heart Association, Minnesota affiliate.

U.S. Senator Dave Durenberger.

Senator [illegible] greets [illegible]
Washington, D.C., Saturday [illegible]
[illegible] presenting [illegible]
[illegible] than 2,000 [illegible]
[illegible]



XII

Senator Durenberger speaks [illegible] Murray, [illegible] Senate [illegible] Senator [illegible] in Minnesota [illegible]

Prescription for change

Table of Contents

Introduction by xix
Donald C. Wegmiller, Chairman-elect, American Hospital Association
Author's Foreword xxiii
Prologue xxvii
"A New Role for America's Hospitals"
East/West Metro Hospital Trustee Council, 10-27-80

Chapter 1 - Generational Equity: The Context for Change

"Choices No Less Than Our Own" 3
Business-Government Relations Council, 9-15-84
"A New American Value"
1985 St. Thomas College Commencement, -25-85
"Having Without Paying" 13
Minnesota Jaycees Fall Convention, 9-2-85

Chapter 2 - Deficits and Tax Reform: Reference Points for Today's Decisions

"Compass Headings for a New Course" 21
Minnesota Press Club, 1-14-86
"Principles for Redesign" 29
American Public Welfare Association, 9-30-84

Chapter 3 - Health Care in Transition: Pickles No Longer Pay the Bills

"Just a Little Bit Ahead of Its Time" 37
National Blue Cross/Blue Shield Conference, 9-12-84
"The Doctor Never Turns Anybody Away" 44
Pfiser Health Care Conference, 4-28-85
"Rationalizing Health Care Spending" 46
Providence Journal/Brown University Conference, 3-13-85

Chapter 4 - Prevention and Wellness: Twin Goals of Health System Reform

"Putting Our Money Up Front" 49
Minneapolis Children's Medical Center, 2-24-84
"The Quiet Revolution In Health Care" 52
Park-Nicollet Medical Foundation, 6-14-85

''An Ounce of Prevention'' 54
Hamline University Conference, 1-17-86

''An Investment Up Front'' 57
American Public Health Association, 11-19-85

''Kicking the Habit'' 58
Senate Floor Statement, 1-31-85

Chapter 5 - Regulation vs. Consumer Choice: Options in Health System Reform

''A Framework for Health System Reform'' 65
National Health Council, 9-18-81

''What's Wrong With Regulation?'' 70
Governor's Conference on Alternative Health Systems, 4-30-84

''A Case for Consumer Choice'' 73
Business Council, 5-11-84

''A Price-Sensitive Health Care System'' 76
Association of Private Pension & Welfare Plans, 5-1-84

Chapter 6 - Consumers and Providers: Two Groups on the Cutting Edge of Change

''Hospitals in the Midst of Revolution'' 81
American Protestant Hospital Association, 6-21-84

''The Provider's Stake in Health System Reform'' 87
Hospital Council of the National Capital Area, 3-29-84

''Better Benefits at Lower Prices'' 91
American Association of Retired Persons, 2-2-84

''Free Choice: A Minnesota Success Story'' 94
Metropolitan Senior Federation, 10-13-84

''Do What You Do Best'' 98
Florida Coalition of Employers, 3-27-84

''A Case for Consumer Choice'' 100
Business Council, 4-11-84

Chapter 7 - Who's Falling Between the Cracks: Side Effects of Health System Reform

''We Must Not Leave the Poor in the Dust'' 105
Capitol Press Conference, 9-10-85

''Poor People Are Being Squeezed Out'' 107
American Public Health Association, 11-19-85

''Continuity of Health Insurance Coverage'' 108
Senate Floor Statement, 10-29-85

''All Americans Deserve Access to Quality Care'' 109
Senate Floor Statement, 10-23-85

✓ ''Side Effects on Health System Reform'' 111
Association of Academic Health Centers, 10-5-85

✓ ''A Federal Government Responsibility to the Poor'' 113
Sentech Medical Corporation Conference, 8-22-85

''Preserving Access in Rural Areas'' 113
Blue Cross/Blue Shield Conference, 7-20-84

''A Daisy With a Long Stem'' 117
American Council of Teaching Hospitals, 5-16-84

"A New Role for Medicare in Physician Training" 119
Senate Floor Statement, 5-16-85

"Side Effects in Health System Reform" 123
Association of Academic Health Centers, 10-5-85

"Medicare's Responsibility to Encourage Research and Technology" 125
Senate Floor Statement, 4-86

"Integrating Medical Capital Costs" 129
Senate Floor Statement, 8-1-85

"A Time for Medicare Capital Transition" 133
Senate Floor Statement, 2-27-86

Chapter 8 - Looking Ahead: Issues on the Health Care Horizon

"Designing the Next Step in Medicare Reform" 139
Senate Floor Statement, 7-24-85

"Medicare Vouchers, the Step Beyond DRGs" 146
Senate Floor Statement, 12-18-85

"Due Process in Medicare Appeals" 149
Capitol Press Conference, 8-1-85

"Better Benefits at Lower Prices" 150
American Association of Retired Persons, 2-2-84

"Catastrophic Coverage Under Medicare" 153
Senate Floor Statement, 11-18-83

"The Employers' Role in Catastrophic Coverage" 156
Senate Floor Statement, 5-23-85

"Fringe Benefits: What We Can and Can't Afford" 157
Employers Council on Flexible Benefits, 2-28-85

"A Price-Sensitive Health Care System" 160
Association of Private Pension & Welfare Plans, 5-1-84

"Health Care Reform Through Tax Reform" 161
Senate Floor Statement, 5-23-85

"Meeting the Long-Term Care Challenge" 166
Health Insurance Association of America, 12-4-84

"Safeguards in Long-Term Care Insurance" 170
Senate Floor Statement, 6-27-85

"A Rational Medical Malpractice System" 174
Senate Floor Statement, 12-17-85

Appendix I

Durenberger Health Care Initiatives in the 99th Congress 183

Appendix II

Chronology of Durenberger Health Care Speeches and Statements 185

Index 187

Introduction

by Donald G. Wegmiller
President, Health Central Corporation
Minneapolis, Minnesota
Chairman-elect, American Hospital Association

Campaigning for the U.S. Senate in his first attempt at any elected office is just the kind of challenge Dave Durenberger has always relished, particularly in a state with a significant majority of registered voters of the opposite party — and for a post which had long been held by nationally prominent Democratic political figures, including Hubert Humphrey.

But take on the challenge he did, emerging as the clear-cut winner and the first Republican Senator from Minnesota in more than 20 years.

First elected in 1978 after a distinguished Minnesota career as an attorney and corporate counsel, and considerble civic service, Dave Durenberger has taken up new and even tougher challenges in the eight ensuing years. Dealing with the nation's fiscal deficit, designing and putting in place reforms in the nation's health care system, and pressing for a new national intelligence strategy have been three of his top priorities.

The acceptance of challenge is characteristic of Dave Durenberger's make-up. That make-up, however, is balanced by a firm foundation in some basic principles including equity, fairness, and candor.

Long before becoming a national figure, Dave demonstrated his concern for the nation's future, for individuals, and for the systems which are the fabric of American society. This book, Durenberger's second, describes his views on the important changes affecting health care in the United States.

Based on a collection of his speeches, the book clearly documents Durenberger's abiding interest in inequity and reform. His clearly-expressed concern for the future forms Dave's basic context for change in American society and systems in American life. His interest in systems is marked by his description of the health care system in its period of transition, and by his emphasis of two main goals in health system reform, disease prevention and wellness.

Concern for the individual emerges in Durenberger's speeches describing the side effects of health system reform and his concern over those who may fall through the cracks of a health care system undergoing reform in a state of rapid transition.

Dave has established himself as the Senate's most knowledgable and most articulate spokesman on health care policy. This has gained him a key leadership position on matters relating to health care.

With an immediate assignment to the powerful Senate Finance Committee, Dave pushed hard for a seat on the important Health Subcommittee in Senate Finance and was immediately involved in the significant debates surrounding major changes in the Medicare payment system for hospitals, physicians and other health care providers. He quickly emerged as a leader in that debate and has now served as chairman of the Senate Health Subcommittee for six years, shaping the debate on health reform from that position.

One of Dave's first pieces of legislation was the introduction of a reform act which laid out many of the basic principles of health system reform. The single most recognized aspect of this reform is the major revision of the Medicare payment system changing all the basic incentives which had been fixtures since its inception almost 20 years earlier. The prospective payment system under Medicare bears the indelible stamp of Dave Durenberger, who repeatedly and clearly spoke to the need for the changed incentives. He effectively shaped the debate surrounding the reform effort until its successful enactment late in 1983.

In February, 1983, Dave stood before the American Hospital Association at its annual meeting and outlined the four basic elements which would have to be part of a new prospective payment system. Each item represented a major change and their collective enactment represented a formidable challenge. Not satisfied with evolving the changes, Dave led the debate and the legislative process which enacted the prospective payment system in less than three months and placed it in effect less than eight months after his outline of its basic principles.

A concern for the future in the improvement of one of the world's most respected, and most complex, health care systems has always been a Durenberger principle. His emphasis on positive incentives, contrasting with the previous mechanisms of regulation and penalties, won him an expanded leadership role and even greater visibility.

On the calendar of the U.S. Senate, achieving clear-cut leadership in so significant an area as health care usually requires a career-long effort. Yet Dave almost immediately emerged as a significant figure with obvious knowledge and a genuine concern for the issues. Less than five years after his first election, he was recognized nationally as a leading spokesman and policy maker in health care. Today, he is quite clearly **the** preeminent leader in this important area of our society. Leadership, Durenberger style, is not achieved through political maneuvering, but rather through hard work, true knowledge of the issues and a reliance on basic principles of concern for future generational equity, for the individual, and for improving our basic American way of life.

Dave's activity and visibility in health care could contribute to the assumption that he is a single-issued politician. Yet, he has rarely been satisfied with narrow focuses or limited interests.

In addition to health care system reform, Dave has emerged as a leader in the debates over our rising national fiscal deficit and related tax system reform issues. He also has achieved a national leadership reputation as chairman of the Senate Select Committee on Intelligence, on which he has served during his entire Senate career.

Although the more publicized aspects of the committee's work, such as spying and counter-spying and responses to terrorism, attracted more public attention, Durenberger was challenged by a less exciting, but equally important task: Working with the CIA and other intelligence agencies on a new strategy to ensure that U.S. intelligence priorities match the needs of foreign policy makers who must rely on sound intelligence to make decisions. Dave's leadership contributed to the CIA's first-ever "national intelligence strategy," a top-secret document that lays out the intelligence community's top priorities for the years ahead. Some observers are calling this new priority setting process the most important development in U.S. policy since the CIA was established shortly after World War II.

Some of us are fond of saying to Dave, "fine, but what have you done for us lately?" Yet it's an expression that seems to reflect his own attitude. Rarely satisfied to sit back and rest on his accomplishments or to reflect on the attention they bring, Dave continues to press in areas where he can make a difference.

As with his first book, "Neither Madmen Nor Messiah's," this book on health care system reform provides a good view of Dave Durenberger the individual. It won't be his last book, since his desire to put forth his views and to listen to the responses will find an effective outlet through his writing.

Over the years, I have come to learn more about Dave's views on a number of issues and he has remained amazingly constant in his concern for basic principles. The record would seem to indicate it is a pretty effective way of assuming leadership. And the record can also easily say, "not bad for your first elected office, Dave."

Author's Foreword

When I was first elected to the United States Senate in 1978, I made a pledge to use my time in public office to work to fundamentally change the role of government.

I had been elected to fill the remaining four years of the term to which the late Senator Hubert H. Humphrey had been reelected in 1976. It was a time when the American people were nearing the end of their tolerance of a government which they believed cost too much and produced too little. Americans were demanding greater accountability of their elected officials at every level. A lot of us agreed with television news anchor Joe Beal in the movie "Network." We were "mad as hell and not going to take it any more."

It was about that time, during the Presidency of Jimmy Carter, that Americans began to express their concerns about the rising cost of health care. Congressional hearings and television documentaries revealed how major illnesses and injuries were bankrupting American families. And, the nation's spending on health care was growing at an annual rate of 20 percent or more, slipping past ten percent of total GNP.

During this time of rising concern about accelerating costs, I had been fortunate to be at the center of early efforts to encourage consumer choice in health care in the Twin Cities of Minneapolis and St. Paul. These efforts had begun several years earlier under the leadership of an enlightened employer community, health policy pioneers like Paul Ellwood and Walt McClure, and some farsighted individuals in the local medical community.

As a corporate public affairs officer, a hospital trustee,and one who was active in a number of local civic organizations, I had seen first-hand the effects of expanded consumer choice in my own backyard. And, I was committed to sharing the Twin Cities' experience with health care consumers and providers elsewhere.

That's one reason, when I was given the opportunity to serve on the

Senate Finance Committee, I immediately sought appointment to its Subcommittee on Health, with jurisdiction over all Social Security Act titles financing health care for women and children, the elderly, disabled and poor.

As a freshman, and a member of the minority party, I was frustrated to see the energies of this potential fulcrum of change focused on such trivial tasks as deciding turf battles between optometrists and ophthalmologists. I sensed that a subcommittee which passed on the tens of billions of dollars spent annually on Medicare and Medicaid could play a much greater role in encouraging reforms like those I had been a part of in Minnesota.

Fortunately, the 1980 election brought Ronald Reagan to the White House. And, with Ronald Reagan came a Republican-controlled United States Senate and a chance for me to serve as chairman of the Senate Finance Heath Subcommittee.

Now, in my sixth year as chairman of the Health Subcommittee, I can look back with considerable awe at the quiet revolution which is taking place in America's health care marketplace. I feel fortunate to be at the center of that revolution and to be playing at least a modest role in guiding its way.

Without question, the pressure to hold down federal government spending over the past several years has had a major role in encouraging the health care reforms which are now sweeping the country.

Medicare had been one of the fastest growing items in the federal budget and, thus, became a prime target for cuts when the rough ax of spending reduction began to fall. It is doubtful that, absent the budgetary pressures we have seen in recent years, the kind of cost-saving reforms which have now contributed almost $40 billion in deficit reduction from Medicare alone would have taken place.

But, even without federal budgetary pressures, major system reform in health care was inevitable.

America's employers — who finance the bulk of health care through tax-subsidized group insurance for their employees — began to see several years ago that health insurance premiums were the fastest growing item in their budgets. And, health care providers themselves began to realize that the days of almost unlimited cost-based reimbursement were numbered.

Government has an important role to play in any major system reform in which it has a financial stake. But, changes of this magnitude never succeed without the strong support and leadership of those most directly involved.

That certainly has been the case in health care reform. Without question, the dramatic changes which have taken place could not have happened without the leadership of physicians, nurses, hospital, clinic and health plan administrators, medical technology experts, and others whose lives are dedicated to providing high quality health care to Americans.

My role in all this, then, and the role of others in public service who support increased consumer choice, has been one of support and mutual reinforcement.

As one of the principal advocates of increased reliance on the marketplace in health care, I have felt a special responsibility to spot unfavorable side-effects of the changes going on and to propose remedies for them.

Partly, this is done by traveling to various parts of the country, meeting with health care providers and others who want to make sure that quality and access continue to get as much attention as efforts to hold down cost.

In large part, this learning also comes from the people I represent in the United States Senate. Minnesotans are the most progressive, public-spirited, change-for-the-better people in the world.

At times, I've found myself acting like a sponge, soaking up ideas as I meet and talk with people, and then regularly squeezing out ideas to test reactions and stimulate further thought.

This drive to both learn from and educate others has offered me countless opportunities over the past several years to speak to organizations and individuals across America who share my excitement and interest in the dramatic changes taking place in the financing and delivery of health care.

In the course of these speaking opportunities, I have often been encouraged to put down on paper what I have learned and what I have concluded so far about the revolution which is now reshaping health care in America.

This book is my first published response to that encouragement. It represents an edited collection of forty-four of the hundreds of speeches and statements I have made over the past six years.

This collection of speeches begins where I began — with remarks to a group of fellow trustees of Twin Cities hospitals in the fall of 1980 on a new role I saw then for their institutions.

The next set of speeches attempts to place what we see happening in health care in the context of a new value I like to call "Generational Equity." I've then included several recent speeches on the current debate over deficit reduction and tax reform, and the need to use the mandate of Gramm-Rudman to redirect, in a positive and rational way, our sense of priorities and "national purpose."

The middle section of the book includes speeches — largely from

1984 and 1985 — which defend consumer choice in health care against those who would re-introduce cost-containment through governmental regulation. In these chapters, I have tried to include representative speeches which trace the evolution of health system reform, documenting its importance to both consumers and providers.

The final two chapters look ahead, toward a still evolving future. While health system reform is largely working as intended, it is having some troubling side-effects: on poor people, on the training of health professionals, on rural areas, and on advancements in research and technology.

These and other components of the health care delivery system have heretofore been financed indirectly through cross-subsidies. Those of us who care about quality and access as much as we care about cost must make sure that, where appropriate, they are now financed explicitly.

And, finally, despite all that has been done to alter the financing and delivery of health care in this country, much more remains to be accomplished. The speeches and statements in the final chapter began to lay out what a future health care marketplace might look like. It, along with the chapters which precede it, represents a still-evolving **Prescription for Change.**

Before one considers this **Prescription** too definitive, I should hasten to advise readers that this collection of speeches is intended to be followed by a second book offering a more refined view of the direction I see health care in this country headed.

That book has been in and out of my typewriter dozens of times over the past two years. It is intended to be definitive. But, definition has been elusive to this part-time author in the midst of a hurricane of change.

In the interim, I am hopeful that **Prescription for Change** will help enlighten others on the exciting revolution in health care we are now experiencing. We certainly all have much to learn. And, we have much more to do!

DAVE DURENBERGER
Washington, D.C.
April, 1986

Prescription for change

Prologue

"A New Role for America's Hospitals"

Remarks to the
East/West Metro Hospitals Trustee Council
St. Paul, Minnesota
October 27, 1980

It's an honor to be here and to have the opportunity to add my comments to a subject that is of great importance to me, to you and to every American: The State of Crisis Facing our Country's Health Care System.

I have found it interesting that, with the exception of inflation, no issue cuts across all demographic distinctions as much as health care does. In almost every conversation I have when I am traveling throughout Minnesota or elsewhere in the country, the issue of health care invariably comes up. And everytime the issue comes up, the bottom line is fear. People are afraid they won't have the health care services they need when they need them.

In a country that has prided itself on providing the very best in health care to its citizens, that common fear among our citizens is appalling. As a public official entrusted with the responsibility of setting policy, I am concerned. As hospital trustees entrusted with the operation of our finest health care facilities, I know you are concerned. Our concern is that the fear health care consumers now have will force us to respond in ways which ill serve the health of America.

But, our concern isn't enough. We are in a crisis, a crisis that demands our action. Our present system of health care is pricing too many people out of the market. Although Jimmy Carter's Hospital Cost Containment Act has gone away for this Congress, the problem of health care cost remains with us. And the economically disadvantaged — those on low or fixed incomes, those most impacted by 12.7 percent inflation — are demanding assured access to sick care.

Last year, health care was the nation's third largest industry. We spent $212 billion on health, nine percent of the gross national product. Our health care costs were an average of $943 per person, the highest in the world. A recent study by the Ohio State Legislature found that personal health expenses took 16 percent of a typical family's income.

Despite these expenditures, the United States is not even among the top 10 countries in the world in such measures as life expectancy and infant mortality.

I've had the unique opportunity to study health care costs from all vantage points — as a consumer, as a provider through my service on Minneapolis Children's Hospital Board of Trustees, in the workplace, and now as a policy maker on the Senate Finance Subcommittee on Health.

It's clear to me and to a lot of other people who are wrestling with the future of health care that the major culprit in the rapid inflation in health care costs is the way in which we finance the delivery of the service. We have removed almost all incentives for cost-effectiveness. We reward the inefficient, and do nothing for the consumer, the physician or the hospital that makes an effort to hold down costs.

Largely Third-party Payment

Today, more than two-thirds of our health costs are paid by third parties, either the government or private insurers. To give you an example in your area of expertise, in 1950, when the average cost-per-patient day was a little less than $16, private insurance and government programs paid 49 percent of hospital bills. That meant that on the average the net cost to a patient of a day of hospital care was just under $8.

By last year, the average cost per patient day was $245, but private and public insurance were paying 91 percent of the hospital bill, leaving a net cost to the patient of $22. Thus, although the cost of providing a day of hospital care had increased more than 15-fold, the net cost to the patient had not quite tripled, going from $8 to $22.

Clearly, something must be done before health care costs bankrupt our country. In recent years, two schools of thought on the crisis of health care costs have emerged. The lines are drawn between those on one side who favor more government involvement through subsidization and regulation and those on the other side, including me, who believe that our, health care needs will best be met by encouraging the marketplace concepts of competition and consumer choice. These two schools represent the difference between saying our system is basically sound, it just needs some fine-tuning, and those of us who say that there is a better way to deliver the service.

The Carter Administration, its Republican predecessors, and others have opted for the regulatory approach. Certificate of need, hospital rate review programs and the recent attempts at cost containment are some of the prime examples of government attempts to control our country's health care costs through regulation. There is no question that government regulations themselves have done little to address the basic problems in our delivery system. Instead, they have actually contributed to health inflation. One study by the Hospital Association of New York State concluded that 25 percent of the hospital costs are attributable to meeting government regulatory requirements.

A major problem with the regulatory approach, especially when it is applied to hospitals, is that it overlooks the fact that hospitals do not have cost-sensitive consumers. In fact, hospitals stay in business by filling their beds. And, they do that by attracting physicians with lures of better facilities, better equipment, and better services, whether or not they are needed by the community in general or the patient in particular.

The physician decides where a patient will be admitted, what tests will be ordered, and what treatments will be prescribed. Yet, there is little economic reward to the physician who practices a cost-effective style of medicine; who keep patients healthy and out of the hospital; or who uses the most cost-effective hospital when such care is needed. Why should the physician use the most luxurious and expensive hospital in town? It's nicer for the physician, and the patient's insurance pays for it anyway.

That point is missed by the regulators. The regulators see all problems the same and, consequently, they can't distinguish among the solutions. The regulatory approach, by necessity, is aimed at correcting a specific problem in a general setting. A problem at one hospital may not exist at another. Yet, both hospitals, even those that have been efficient, are forced to comply with costly and unnecessary regulations.

Providers Are Becoming More Cost-conscious

Fortunately, many physicians and hospitals, especially here in Minnesota, are becoming more cost-conscious. Some physicians, for example, are organizing themselves into associations which compete for patients on the basis of cost-effectiveness. The Physician Association which keeps its patients healthy; uses hospitals only when necessary and then seeks the most efficient ones; and, orders only those tests and treatments that are required for good health, will have a lower premium and will attract more patients.

Over 400,000 people are enrolled in the seven Twin Cities' HMOs. These organizations are competing for enrollees on the basis of benefits and costs. They have good reason to shop around for the best hospital deal they can find. Lower hospital costs mean lower premiums, and lower premiums attract new enrollees. The hospitals that do best in a competitive environment will be those that offer the highest quality at the lowest price.

We have here in the Twin Cities an environment conducive to innovation and change; physicians, hospitals, business, consumers, government — all are actively encouraging and participating in the enhancement of competition.

Meaningful competition may just be our last defense against regulation. The kinds of activity we see here at home need to be explored and expanded upon in other areas of the country. The legislation I introduced last year, the Health Incentives Reform Act, is designed to do just that. It will facilitate the emergence of competition on a broader scale by encouraging multiple choice by employers, requiring equal employer contributions to health benefits. I fully expect these pro-competitive provisions to receive serious consideration in 1981 and to be passed by the 97th Congress.

But, whether they are passed next year or two or three years from now, there is no doubt in my mind that competition and consumer choice are the way of the future. And, in an environment of competitive health care the hospitals that will survive will be the ones that have been led by their trustees and managers to look beyond the four walls of their building. The successful hospital will be the one in which the managers have ceased to define their hospital by the physical facility, but by the service it offers.

Some changes will certainly be brought about by health care planning. Good health care planning will establish broad rules for fair competition and will help us look into the future so that trustees and others providing health care can respond adequately to the needs of individuals.

Planning is not an effort to satisfy public wants but rather to establish needs. Planning under competition can change its role to that of a consumer advocate, helping consumers get the best values in medical care.

A New Role for Hospitals

Hospitals in a competitive society must become less of a building and more of a health and sickness corporation.

For some of you, competition will mean vertical integration — to use the current phrase — that relies less on new equipment and more on things like employee assistance programs. Instead of buying a therapeutic radiology unit, you may find it in your better interest to invest in a wellness program because the hospital that focuses on wellness will be more attractive to the pre-paid, limited provider plan that will provide your patients in the future.

To cite just another example, in April of next year more than 200,000 Medicare beneficiaries in the Twin Cities will be eligible to join HMOs. And, since 40 percent of your dollars come from Medicare, you can see where your market will be.

— xxx —

For too long, hospitals have concentrated only on acute care — on sickness — with the goal of filling as many beds as possible. That is no longer viable in a cost-conscious environment. Hospitals must go beyond that to offer a range of health and sickness services, including mental health, family counseling, chemical dependency programs and out-patient and long-term care.

In that last area, long-term care, hospitals are going to be challenged to plan not only in their own best interests — filling their beds — but in the interests of the community. My health task force held a meeting last week and focused mostly on the issue of long-term care. The areas they emphasized the most in considering legislative solutions to the problems of long-term care were flexibility and local control and initiative. I couldn't agree more.

We have to look at long-term care in a new light. The Senate and House Conferees working out differences in the fiscal 1981 Budget Reconciliation agreed to a Senate provision to reimburse hospitals providing long-term care at the skilled nursing or intermediate care facility rate.

The so-called "swing-bed" provision applies to small rural hospitals and to patients determined to need nonacute services rather than hospital care, but where no long-term care beds are available. Savings are estimated at $101 million in fiscal 1981.

That may be one approach, but it is not the only answer. We have to resolve the problem that forces some Medicare beneficiaries into hospitals for three days before they can be reimbursed for nursing home care. We have to find answers that don't just fill beds, but meet the patients' needs.

Change is Not Necessarily Bad

Some hospitals in a competitive society may be forced to specialize or merge, but that's not necessarily bad. I was disturbed by an article in the August issue of "Trustee" magazine that said a by-product of a merger or a hospital's affiliation with a management system was a loss of caring by the institution.

According to the author, Robert M. Cunningham, Jr., "The prevailing emphasis in management systems is management, and the prevailing emphasis in management today is cost-effectiveness, and caring and concern are not notably cost-effective except in a perspective that envisions the long-term future of the entire voluntary hospital enterprise, as well as next month's profit-and-loss statement."

If any of you run into that kind of a management system, turn around and run in the opposite direction. That's not what cost-effectiveness is all about. In fact, that kind of a management system may bring some short-term gain, but, in the long run, it's a road to ruin.

The heart of cost-effectiveness is concern for the patient. The hospital of tomorrow must take care of patients who are sick, but its goal is to keep people healthy, to stress the wellness program, the counseling and all the other things that I mentioned earlier.

Frankly, there is an element of risk in this for you. No one, including the most ardent advocates of competition like me, know what competition will bring. I'm convinced that it is the path we must follow, but our experience with it is limited to the Twin Cities and a few other places.

The Role of Trustees

I want to close by discussing one other important area of hospital care — the trustee. When I joined the Board of Trustees at Minneapolis Children's Hospital, there was no one who understood how public policy affects the nature of your business or how public policy can or cannot be changed.

Traditionally, hospital trustees have been appointed because they could raise money for new buildings or new equipment. That role is still important, but trustees must also begin to play a key part in changing our hospitals from acute care facilities to health and sickness corporations. In other words, trustees must be involved in understanding and changing public policy. That is the reason you are here today.

Hospital trustees must have the same level of expertise and make the same commitment as do the trustees for 3M, General Mills, and every other major corporation. Hospital trustees must be people who understand the issues and who have the time and ability to make the necessary commitment.

Hospitals can't be run just by the people who want to fill beds; we need the active involvement of people who have a broader vision of hospitals . . . people who look at a hospital and see a health and sickness corporation.

The issues and challenges I've laid out today are major ones, ones on which we can't afford to fail. If we fail to make our health delivery system more cost-effective, if we don't instill competition and consumer choice, the only alternative is more government regulation and subsidization. If hospitals don't take the lead in changing our system, then they will be the first to feel the effects of our failure.

I am confident that we will succeed because I've seen the beginning of that success right here in Minnesota. I'm confident the 1980s will mark the beginning of a new era of more affordable and more accessible health care. That must be our mutual goal.

Prescription for change

"We have always been the nation, generation after generation, that has worked to give our children choices as good as our own. We must become that nation again."

1

Generational Equity:

The Context for Change

A new American value is emerging, known as "Generational Equity," which attempts to put decisions made today in the context of their effect on the lives and livelihoods of future generations. This new American value results from realization that choices made by the generation in power since World War II — if not altered — will severely limit the choices of young Americans and those yet unborn. While much of the attention to this issue has gone to the burden on future generations of growing federal deficits, future choices are also being limited by decisions now being made on income security, arms control, the environment, and a myriad of other issues.

1

"Choices No Less Than Our Own"

Remarks to the
Business-Government Relations Council
Washington, D.C.
September 15, 1984

There's no shortage of challenges facing those of us in public life these days. But, I want to talk with you today about a problem that's on the mind of every politician. The subject is debt. Owing money. Living beyond our means. It can be a very depressing subject, so you shouldn't expect light-hearted banter as I work my way through it.

It's gotten to the point that when you say the word "debt," people automatically think of the federal government. That's appropriate. People are taxpayers, and as taxpayers they inherit debt beyond all comprehension.

The accumulated debt of the United States government today is about $1.5 billion — give or take a few treasury bills. That's $15,000 for every American who has a job. The interest payments — the simple annual interest — on that debt is $1,000 for every American who files a tax form. You owe a thousand a year just to get into the game of making a living in this country.

To make matters worse, our national debt is growing at the rate of $175 billion per year. We're not paying off this loan. We're borrowing to make the interest payments. In fact, we're borrowing to pay the interest and then borrowing some more.

The entire congressional appropriations process has been paralyzed over defense spending authorization since July. But, it's interest payments, not defense spending, that's the most rapidly increasing part of the federal budget. From 1980 to 1985 we've doubled the national debt and tripled our annual debt service.

Let me put it to you another way. Medicare is the second largest federal domestic program, after Social Security. It will cost about $64 billion in Fiscal Year 85. If we had balanced the budget for the last four years, the interest savings would have been enough to pay for Medicare in 1985. No 1.3 percent payroll tax would be needed.

One more example: All the Reagan cuts, all the battling with Congress over budget resolutions and reconciliation are gone, entirely consumed. There were no savings, because higher interest payments ate them all up.

Carrying Charges Passed on to Our Kids

According to Thomas Jefferson the first principle of government is that you leave the next generation — your children — with opportunities for choice no less than your own.

It goes beyond money. It's why this nation has always been willing to fight to preserve its liberties. That is why our citizens put such a high value on environmental protection and the conservation of our natural resources. But now it has come back to money. The freedom of our children to choose is a fundamental issue in the budget process of the federal government, because of the size of the deficits we face.

Spending a deficit is like having a credit card with the bill sent to your kids. My generation has used that plastic money to have life cushy now without realizing that our children will pay the carrying charges all of their lives. We have limited their opportunities to choose because we have not been able to limit our choices to what we can afford.

That is not what we intended. In fact, the Jeffersonian principle, "pass on choices as good as your own," sounds like a rather modest goal to my generation. It was an expectation drummed into us by our parents. We were the children of the Depression. Our folks never wanted the nation to go through that experience again. And ever since the war our nation has been on a treadmill of rising expectations for material abundance.

If the federal debt were the whole of the problem, it might be tolerable. But it is only chapter one. The total debt of this country — government, business and consumer — is six trillion dollars and growing. It has increased five-fold in the past twenty years. We are all borrowers for cars, houses, educations, vacations and business investments. You name it, and we've bought it with borrowed money.

There was a time when people reacted to these kinds of statistics by shrugging their shoulders and saying, "Well, we borrowed it from ourselves. We owe it to ourselves. So what's the problem?" Lots of economists will tell you that it's not possible to pass the national debt to the next generation.

Well, that just isn't the case anymore. The United States is about to join Poland, Mexico, Argentina and Brazil as a net borrower. We have developed such a habit for borrowing to get ahead ... we've become willing to pay such high rents for capital ... that money is flowing into America from all over the world. We're junkies for debt. When you watch Treasury walk on eggshells with radical schemes to market its bonds to the Japanese investor, you know that times have changed.

Borrowing More Than Money

And it's not just money. Let me see if I can make the point about my generation with some other examples.

Peace. In addition to being the generation of prosperity, I dare say that, as we move on, we will also claim to be the generation that saved the peace. There have been no global conflicts on our "watch".

But how did we buy this peace? We got in through a spiraling arms race that points ever upward and passes on to our children the obligation to spend and spend and spend some more to assure that our liberties are guaranteed.

Health. My generation puts that right at the top of the list. Today it is paying $1 billion per day for a sick care system. That's ten times as much as it payed in 1960. That's $1500 per person per day and it's rising at twice the rate of inflation. We are spending three times as much per capita as the Japanese and we rank much lower than they on infant mortality, life expectancy, and death from heart diseases.

Oslo, Norway has one-third the neonatal intensive care units located in Minneapolis-St. Paul. But, our infant mortality rate in this country is twice as high as it is in Scandinavia.

And, it isn't just direct spending through government programs like Medicare and Medicaid. We have indirect subsides, as well, like the $30 billion a year in revenue foregone it takes to support employer-based health insurance.

It's a cruel irony that we, as a nation, subsidize Chrysler, to the tune of $6000 a year per employee and annuitant, while 32 million Americans are uninsured or inadequately insured because of the high cost of health insurance premiums.

And, we continue to contribute to the problem with our lifestyles. We paid $200,000 out of the Medicare trust fund so that Dr. Barney Clark could use an artificial heart for six months as a reward for 25 years of smoking two-and-a-half packs of cigarettes each day. And, on top of all of this comes a rapidly aging and longer living population accumulating lifestyles diseases, the cost of which my generation will pass on to our children.

Income security. Do you know that the average American who retired on Social Security in 1982 has already recovered every penny he and his employer paid into the system over his working life — every penny plus interest. Most of those years he paid very low taxes compared to the benefits today. On the other hand, those paying into the system this year cannot reasonably expect to get their contribution back. Current projections indicate that the average American who started paying into the system in 1982 will only get 72 percent of his contribution back — not to mention the payments of his employer.

The environment. With one eye on the deficit, Dave Stockman looks at the $40 billion cost to significantly reduce acid rain and says we can't afford fish for lunch at $6,000 a pound. And,no one even thinks to tell him that fish reproduce, and that, if we kill them all so that our gadgets and gismos can all be motorized, our children can't have them for lunch at any price.

A Conspiracy to Avoid the Issue

So, where are our politicians? They are all part of a conspiracy to avoid the issue, to hide the guilty truth from the middle class by blaming it on someone else.

Cut government spending? You could cut all the programs that benefit the truly needy without denting the deficit.

Tax the rich? You could confiscate all of the income of the truly greedy and still not close the gap.

Look for the politician who tells you that he is going to tax the middle class and take away some of their benefits to boot. That's the politician who is telling the truth about our debt.

And, if he goes on to say that government is not the only sinner, that we are, all of us — government, business and consumer — too willing to become a debtor, he may also be the politician who grabs the future. He understands our past.

We have always been the nation, generation after generation, that has worked to give our children choices as good as our own. We need to become that nation again.

"A New American Value"

Remarks to the 1985
Commencement Exercises
College of St. Thomas
St. Paul, Minnesota
May 25, 1985

Last year at this time I made the commencement address at St. Olaf College in Northfield. The subject I chose for that speech was borrowing and debt.

It was not a happy speech. It seemed to me at the time that our penchant as a nation for the borrowed dollar threatened the very foundations of our economy. And so it seems to me today . . . a year later. We are still a country of credit junkies . . . borrowing from our future to consume today.

But I have also found much **good** news in the year that has gone by. I didn't realize it on that Sunday in Northfield, but I was beginning my own personal education on a new subject. I call it generational equity. Over the past year I have joined with others to establish a new national organization called Americans for Generational Equity...A...G...E... or AGE.

It is the purpose of this organization to understand how the decisions that we make **today** will affect the lives...the livelihoods . . . of future Americans . . . of the Americans who will inevitably inherit our fortunes . . . and our follies.

Generational equity is a value. It's like individual liberty or equal opportunity or free markets. It is a way of saying what we think is important. It is a standard that can be used to judge our actions as a nation.

And, it is a new value. It is a value that we are newly discovering as we Americans begin our third century as a society.

In our first century the fundamental principles were individual. They are perhaps best expressed in the Declaration of Independence:

> "We hold these truths to be self evident, that all men are created equal, that they are endowed by their Creator with certain inalienable rights, that among these are Life, Liberty and the Pursuit of Happiness. That to secure these rights, Governments are instituted among Men. . . '

There is concern here for the proper balance of wealth and authority between the young and the old. The Founders expected the family to decide such questions. How to care for the aged or where to apprentice the adolescent were not subjects brought to a vote in the legislatures of our land.

In our second century these concerns for individual liberty and property were balanced with a commitment to equal opportunity and income security for all Americans. Our own Hubert Humphrey gave perhaps the best expression to the second century when he said:

> "The moral test of government is how that government treats those who are in the dawn of life, the children; those who are in the twilight of life, the elderly; and those who are in the shadows of life, the sick, the needy and the handicapped."

And now, in our third century, we wonder if we can sustain the commitments that have been made. Can we pass on the liberties and opportunities that we have enjoyed? Being confident that our choices assure equally good choices for our children and their children is the essence of generational equity.

Those of us who are parents ask this question every day. Better choices . . . not just good choices . . . but, better choices, are part of the uniquely American dream.

Borrowing to Pay the Interest

It is tempting to look at the post-war record of our economy — the almost constant expansion of opportunity and security — and to believe that the future will take care of itself. In fact, when economists have paused to consider the subject of generational equity over the past twenty years, they have usually concluded that each succeeding generation will automatically be better off and that only fools would make themselves poorer to save for their children.

Listen to these words by Paul Samuelson, the most influential economist of this generation, which describe Social Security:

> "The beauty of social insurance is that it is actuarially unsound. Everyone reaching retirement age is given benefits that far exceed anything he has paid. How is this possible? It stems from the fact that the national product is growing at compound interest and can be expected to do so for as far as the eye can(not) see. Always there are more youths than old folk in a growing population. More importantly — with taxable incomes growing at five percent per year — the taxable base on which benefits rest is much greater than the taxes paid by the generation now retired. Social Security is squarely based on what has been called the eighth wonder of the world — compound interest."

Professor Samuelson made that statement in 1967. What he forgot to mention to his students is that you have to be making deposits to earn interest, compound or otherwise. But for most of the last twenty years, our nation has been living off withdrawals. Compound interest is not so wonderful when you're a borrower. And as a nation — as a generation — we have perfected the art of borrowing.

Samuelson was quite wrong about Social Security. The base has expanded, but not principally as a result of economic growth. Congress has been compelled time and again to increase the tax rate or the taxable base to assure that the benefits which have been promised can be paid.

And the number of workers in proportion to the number of retired is also no longer growing. That ratio now looks like it will be of significant disadvantage to future retirees. Today there are 3.4 persons working to support every Social Security recipient. By the time those graduating today are ready to retire, that ratio will have dropped to 2 to 1.

The problems of debt and borrowing are most apparent when one looks at the budget of the national government. And it was the failure of the congressional budget process which brought me to such pessimistic conclusions about our future a year ago.

The national debt has doubled in the past four years and those compounded annual interest payments have nearly tripled. The national debt is such an abstraction that few people get excited when a politician says that the national debt is out of control, that each year interest payments on the debt are growing more rapidly; so rapidly, in fact, that even with the spending reductions that Congress has been voting we are falling farther and farther behind.

If the spendthrift ways of the Congress and the national government were the whole story, it might not be cause for such deep concern. But it is only chapter one. We are all borrowers, government — national, state and local — businesses, consumers, college students.

The total debt of the country, counting everything from Uncle Sam to money that moms and dads borrow to pay for the wedding, the total debt of the country has increased five-fold in the past twenty years. If we had invested those dollars in steel mills and oil refineries and computer chips, in jobs and education and research and training, there wouldn't be a problem. Those kinds of investments create wealth and wages to repay the borrowing. They are the stuff that makes compound interest possible.

But we didn't. While borrowing increased five-fold, the total value of our productive assets only doubled. The rest we spent. We consumed it. We used it up. And now we are borrowing to make the interest, because we lack the tools to earn our way.

You cannot imagine the frustration I feel having to face that reality each and every day . . . knowing that the Congress is not capable of cutting spending fast enough to keep up with the increase in interest payments . . . knowing that, each year, the budget process will swallow more of our commitment to opportunity and security for all Americans.

But you don't get anywhere, if all you do is shout out your frustration. So I looked for a new perspective on the budget process. I needed some new principle that I could use to explain to folks that we are on the wrong track . . . that we can't go on borrowing indefinitely. And for the past year I have been developing the concept of generational equity to communicate my concern.

I have found that the relationship between generations is a much broader question than government spending alone. It's not just who is taxed . . . and how much . . . to pay for Social Security or Medicare today. That's not the real problem. The real problem is investing enough in our economy today so that it will have the strength to continue Social Security benefits at today's levels — for those who retire in the future.

Groundwater, Soil Conservation and Public Works

Living up to the promise of generational equity . . . passing on to the next generation choices as good as our own . . . has implications way beyond the concerns like debt and borrowing that started me on this path. Protection of our nation's groundwater resource represents a good example.

Most Americans don't realize that there is 50 times more water stored in underground aquifers than flows through all of our rivers and streams each year. We use a lot, too — 17 million Americans depend on groundwater every day. But we use five times that amount for agricultural purposes. Total withdrawals in 1985 are about 100 billion gallons each and every day with 60 billion gallons per day used for irrigation.

In the high plains states — in the agricultural belt running from north Texas to western South Dakota — ground water depletion is a serious problem. These eight states share one giant aquifer. It most likely will be exhausted within the lifetime of one generation. What took nature hundreds of years to build up will be gone in a few short decades.

The farmers and ranchers of Texas, Oklahoma, Kansas and Nebraska, who are pumping groundwater to irrigate fields for this generation are assuring that irrigation will not be among the choices available for the next.

I can bring that example much closer to home by considering soil conservation.

On the average, Minnesota farmers lose about five tons of top soil for every acre they farm each year. That means for every pound of corn we grow to export to the hungry of other nations, we also export 70 pounds of our top soil through wind and water erosion. And the damage is accumulating.

For example, since the prairies were first plowed in Iowa — the nation's richest agricultural land — something like 50 percent of the total top soil has been lost to erosion. Gone. And Iowa senators, knowing that agricultural productivity is everything to their state, put soil conservation at the top of their priorities. They do so for the reason of generational equity ... to make sure that agriculture is always among the good choices for the people of Iowa.

I can jump to a completely different field like public works, and again the question of balancing interests between generations is relevant.

This nation, its states and cities are the owners of hundreds of billions of dollars of highways, schools, sewers, street lights, dams, water mains, airport, parks, harbors, bridges, buildings and open lands. Trillions of dollars, in fact.

This public investment represents uncountable wealth built up over generations to make the roadmaps of America.

But what do we read in the headlines about the public infrastructure, today? That this generation has allowed it to fall into disrepair. Public expenditures to build and maintain the infrastructure have been falling steadily for more than a decade — from something over three percent of GNP to something less than two percent. Estimates of the cost now to catch up, to rebuild the public capacity to support a growing economy, range into the trillions of dollars. This burden, too, is being passed on to future generations.

Positive Signs in Health Care Reform

But, I said there was also **good** news — that I have found some hope in my study of the principle of generational equity over the past year. And I have.

We are beginning the eighth generation of Americans. From the time of the Founding Fathers, seven have gone before. Each had its special challenge. From the Americans who won the Revolution to those who kept the Union to those who settled a continent to those who gave their lives to save freedom for peoples around the globe, each generation has had its special challenge and character. And often the seed of the greatest achievement was the failure of the generation that had gone before.

Ronald Reagan is the last President of the Seventh Generation. It started with John F. Kennedy in 1960. Few people realize that our youngest and oldest Presidents in history were chronological contemporaries.

As you look at the period 1960-1985 in the United States, you can count a whole host of successes ... in medicine and health ... in science and technology ... in education and the arts ... in the quality of life available to the average American. The two great challenges ... containing the threat of nuclear annihilation while preserving our liberties and sharing the abundance of our economy without stilling the urge to private initiative ... have been met and mastered. We are a great nation, indeed.

Compared to our successes, the failures of my generation are perhaps small. As parents, we have this nagging sense that we may have borrowed too much. The next generation cannot compound our interest if we failed to make the deposit . . . and we may not have invested nearly enough. But, it is in the very understanding of that problem that we make the transition to the new generation . . . to the next age and its agenda. And therein lies the hope.

Let me use health care as an example.

Health care was a hit or miss proposition in the United States until after World War II. There weren't comprehensive health plans offered by employers until the 1950s. It wasn't until 1965 that Medicare and Medicaid were established. Expenditures on health were only a small percent of the national income — less than four percent.

Now, however, we spend one billion dollars a day on doctors and hospitals. In a month we spend more than we did in a year when I was your age. In 20 years, Medicare and Medicaid have grown to be ten percent of the budget of the national government. We have developed an ethic in this country that says every effort should be made to preserve life . . . to extend life . . . whether the individual can afford the necessary care or not. If not, the nation will pay. That's a challenge.

In other nations . . . perhaps under other leaders . . . that challenge might be met by trying to change the ethic by rationing care . . . by denying treatment to some according to a government devised cost-benefit calculation.

That's not what the new generation of Americans wants as a national health care policy.

Do you know where we have turned to meet the challenge? The answer is all around you. It's those joggers on the road. It's the news stories that say we're drinking spring water rather than sipping whiskey. It's the continuing decline in the number of Americans who smoke. It's the effort by government and employers to screen for early detection of health problems.

We've become health nuts. That's the ethic that's changing. We want every chance for life. And, we are developing a strategy of sickness prevention that will make that possible without borrowing from the future to pay the bills.

Let me be explicit about this point on a generational basis. Health care costs at the end of life can be extraordinary — so large that they become a factor in the social calculus. Some say that to ease the load on the young, the old have a responsibility to give up the heroics and go on more quickly — exemplified by the so-called living will.

But, I say that we have no business making that judgment until we at least invest in wellness. And, when we do, we will find plenty of surplus resources within the budget of our current health care system to give all of life every chance. And, I didn't invent this answer. I found it out there, in the next generation, as a natural response to the challenge they had been presented by my generation.

At the next election, or perhaps not until the one after that, the new generation will begin its chapter. The "Baby Boom" officially becomes a majority of the likely voting age population in 1988. Those of you who are graduates here today will be the youngest of that generation. In the 30 years when you are exactly my age and your generation is passing the torch, I think that you will ask the same kinds of questions that I have struggled with over the past year.

As a politician, I find this an exciting time . . . a creative time. All of my colleagues who aspire to be President know that you are a new generation. And, they fly back and forth between the coasts of a whole continent, giving speeches in the hope of catching your attention.

I have discovered through my year-long study of generational equity, that those most likely to succeed . . . to lead the nation into the third century . . . have a new understanding of our purpose.

We are more than founders of a nation. We are more than a handful of white, male individualists seizing a continent. And, we are more than the "Happy Warriors" of the New Deal, allocating the wealth of a nation among the ever-dividing and always quarreling interests in the great melting pot.

We now understand that we are only temporary custodians of the liberties and opportunities . . . the values . . . that define America.

And, we now understand that our first purpose must be to pass on those values, without diminution, to the Americans who will live tomorrow.

Attempt much. Achieve much. But, in your reach, do not take so much . . . as we have taken . . . from the future. That's the greatest challenge facing the new generation we are honoring here today.

I have confidence in you, as you reach out to meet the challenge. And, I wish you Godspeed.

"Having Without Paying"

Remarks to the
Minnesota Jaycees Annual Convention
Sioux Falls, South Dakota
September 3, 1985

I'm going to talk to you today about grandparents, children and their grandchildren. I'm going to talk about my folks and I'm going to talk about my sons who are 18, 20, 21, and 22. I'm going to talk to you about generational equity.

My parents had me in the middle of the Depression, in 1934. And, in 1934, I was about all my parents could afford. That's how bad things were. My parents' generation swore, made a pledge to me, that when they came to political power in this country, I would never have to live through what they lived through in the Depression.

And they delivered on their promise.

When my parents' generation came to power in the period right after the Second World War, they made it possible for everybody in this country to "have." They made it possible for people who were minorities, race and religion, to have the same right of access as the majority. They made it possible for workers in this country to have access to occupations, safety and health. They made it possible to afford to have access to health care. And they made it possible for all of us to have cleaner air, cleaner water and a lot of other "good" things.

The only place, in retrospect, that they might have gone wrong, and this is for your generation to decide, is that they paid for all of this "having" with a brand new economic policy entitled - "you can have without paying." And that kind of a policy has been the gift to my generation. What I do with that gift is going to affect everyone in this room very substantially!

Why Does It Cost So Much?

I bought my first home for $500. When I came to adulthood I was told by the people in political power in this country that I could have any kind of home I wanted and all it would cost is $500. I could have money at 4½ percent. I would have 30 years to pay. And, I could use the interest deduction for my taxes, so somebody else would pay the bill.

When everybody in my generation bought their first home and stood up with their $500 bills, we found out that we had twice as many buyers and $500 bills as we had sellers. So what happened? You know what happened.

When demand exceeds supply by that big a factor, the price of everything goes up.

I am the beneficiary, starting with a $5000 home and ending up, on an average, with an $86,000 home. The average price of housing in America in my generation started at $5000 and is now at $86,000. The average mortgage payment in 1970, which wasn't so long ago, was $156 and today the average mortgage payment on the average home is $900.

Now, that is what my generation is providing for the generation that comes along behind us. And many of you have seen this sort of thing in your own life. Many of you are looking at it now and asking "why does it cost so much to have what my parents had for so much less?"

There is a little story I heard in Texas. It's a riddle. "Why were there so many heroes in the Alamo?" The answer: "Because there was no back door". They had no place else to go.

I've thought about that story a lot since I got elected to the Senate. I've thought a lot about Congress being like the guys in the Alamo. Outside everybody is saying, "cut taxes, cut spending, balance the budget, shake this place up for us." And we're inside wondering, "how do we get out of this thing alive?"

The reality is that, if you look at the Congress, and you look at all the folks out there saying you've got to do something, the reality is that Congress has a back door. And every even numbered year, your favorite Senator and Congressman comes out the back door. And he tells you that he's got a plan to balance the budget, to cut taxes, to cut spending. He'd do all that if it weren't for the guys "back in the Alamo."

It's Not Just Housing

This past week I voted with the Finance Committee to raise the national debt to $3.2 trillion. I had no other choice. My first vote in 1979, six years ago, was to raise the temporary debt ceiling to 800 billion dollars. Now we've taken it up to $2.0 trillion. And we dropped the word "temporary."

In the last five years the annual debt service has gone from 49 billion in 1980 to 137 billion this year. This year the deficit alone will equal $1,000 for every man, woman and child in America. That's just this year's deficit. That's just this year's difference between what we spend as a society through our federal government and what we are willig to take in, in taxes.

Each dollar that the government borrows today will cost you 24 dollars to repay. If current interest rates were half what they are today, today's young workers would still pay an extra $15,000 in taxes over their lifetime — just for this year's deficit.

We have, at the end of my generation, created a society in which most people believe they have a right to **have** and not pay for it. And it isn't just housing.

The first time I went to work for somebody they handed me something and said "here's your health insurance." It doesn't cost you anything. When something doesn't cost you anything, you use it, right? And that's what we've done in this society. If health insurance is free, well, it doesn't cost you anything to get sick, does it? It doesn't cost anything to smoke, it doesn't cost anything to drink, it doesn't cost anything to drive an automobile without a seatbelt, and on and on.

So you wonder why we have so many doctors in our society. Why do we have too many hospitals? Why do we have all this good technology which costs billions and billions of dollars? Why? Because there is no reason not to spend.

When I retire, fifteen years from now, I'll have Social Security. But, for many of you in this room, who are paying $5,400 a year in payroll taxes, there isn't going to be any Social Security when you retire. There isn't going to be any Social Security because, to pay for it, those poor souls fortunate enough to be working at the time would have to pay a 41 percent payroll tax — in order to meet the obligations which are, right now, on the books.

This year's budget deficit is $212 billion. If we took Social Security off the budget, the deficit would be $276 billion. That means we are taking in a whole lot of money these days from the payroll tax. Just look at your paycheck.

But, today, September 21, 1985, the unfunded liability of the Social Security system — that is what it would take to pay off every one of you who is currently working when you retire — is three-and-one-half times the national debt, or **seven trillion dollars.**

That's the size of this problem. Looked at today only, it looks like there's a lot of money in the Social Security trust fund. Looked at by the time a 35-year-old is 65, the system is broke.

And, what have we done in the last four or five years, trying to address this problem of living within our means? I think what we did was decide we have to continue this process of having without paying for it. We decided to continue to have social insurance; we raised that from $199 billion a year to $322 billion. We decided we needed a lot stronger national defense and we raised that from $145 to $302 billion in just the last six years. And we decided that we had to buy debt and we raised that from $50 billion to 137 billion.

All other government, however, we've reduced. All other programs including agriculture price support programs, highway construction programs, the FBI, and the drug enforcement administration, went down from $210 billion to $190 billion.

On the tax side we said "we're not going to pay any more." So we cut the income tax by 25 percent, dropped the marginal rate of taxation, made it cheap to save. The total individual income tax today will be only $331 billion. The total spending is $960 billion. The corporate income tax today raises the same amount that it raised in 1977, 58 billion dollars. It's almost a nothing. You wonder why we have it.

But the payroll tax is another story.

We all complain about workers comp rates in Minnesota and unemployment comp but that's piled on top of the Social Security tax. I've already told you how high that one has gone. Your generation is experiencing, for the first generation in anybody's memory, a decline in your disposable income. And this, ladies and gentlemen, is a tough message the politicians are not supposed to deliver to their constituents.

It isn't so much your responsibility to take action as it is mine. But I can't take action without your help. This is a problem of generational equity. My parents who helped create this environment are pretty well off but they lived through the Depression and are not sure that maybe tomorrow it might not return and devastate them.

My generation is not sure it wants to give up all this "having." We really haven't had to pay for it. So it's your generation that has to start voting, that has to start getting involved in the political system, that has to start speaking up for all kinds of things that are very, very important to this country. And, you have to speak up in the positive rather than the negative. You have to be **for** something, rather than **against** something. and, a good thing to be **for** is "generational equity."

I started, this past year, a new national organization called Americans for Generational Equity. It will be an appeal on the part of my generation to your generation to help those of us in politics do something about our inability to come to grips with deficits, debt, and "having" without paying for it.

Some people are going to say, "Well, Senator, you are blowing smoke. It really isn't all that bad. Deficits are only a small percent of GNP. And, that percentage has been higher before."

To those people, I politely say, "Bull!!"

Deficits are what's happening to American farmers. From all over the world, people with money to invest are coming here to buy our debt and to sell their products. So the elevators are full. And large parts of this world continue to go hungry. And, large parts of this country are in a Depression.

I've tried out this message about generational equity on rooms full of older people and they all nod their heads up and down more than they shake them from side to side. They know what it's like to live within their means.

Dealing with generational equity will take the very patient bringing together of grandparents and grandchildren, the facing of the realities of what we are doing to each other in our desire to "have" without "paying." It doesn't mean that we've got to do without grandfolks. It does mean that we have to plan now for the kind of future we have an obligation to pass on to the next generation.

These are difficult problems, requiring tough solutions. But, history tells us that the safest course at difficult times in our lives is to tackle our problems head on. In this nation, there are more than enough ideas, and more than enough determined individuals like yourselves to meet these difficult challenges.

We who have lived with these problems desperately need you, who are unwilling to live with them, to show us the way.

Prescription for change

"In charting a new course for America, we need a clear statement of national purpose which will serve as a sound and systematic basis for our decisions."

2

Deficits and Tax Reform:

Reference Points for Today's Decisions

The federal government, in 1986, finds itself badly in need of a new compass so that it can steer itself clear of the rocks and shoals represented by its growing dependence on deficit spending. The Gramm-Rudman deficit reduction process will provide an important inducement for achieving a balanced budget by 1991. But, Gramm-Rudman is a process, not a policy, for deficit reduction. Achieving the hundreds of billions of dollars in deficit reduction required by Gramm-Rudman will require a plan which helps sort out the proper role of the federal government, encourages appropriate spending cuts and reforms, and raises additional revenue through genuine and broad-based tax reform.

2

"Compass Headings for a New Course"

Remarks to the Minnesota Press Club
Minneapolis, Minnesota
January 14, 1986

Government in America is entering a period of accelerated and fundamental change. The "future shock" which has transformed industry, health care, and all the institutions of our society is now being felt in the corridors of power. The days of the politics of traction are being replaced by a time when creative anticipation and planning are becoming more paramount.

Within this context, deficit reduction and tax reform will dominate the year which lies ahead. These two issues represent, at the same time, unparalleled risks and opportunities for the America of the future. How we act now will determine the life and livelihood of Americans who will live in the Twenty-first Century.

President Ronald Reagan will deliver a speech two weeks from tonight in which he tells us his view of the state of the union. What I hope the President does this year — and what he has **not** done since his first inaugural — is to articulate a positive vision of the federal government and its role in our society.

Many of you will recall that in 1981, when Ronald Reagan took his inaugural oath — the first President to do so facing the American people, from the west side of an east coast Capitol — he provided us with this challenge: "If not us, who? If not now, when?" Much of what we have seen over these past five years has suggested that this was a challenge to dismantle the federal government, when what we've really needed has been a challenge to **change** it.

Change Requires a Plan

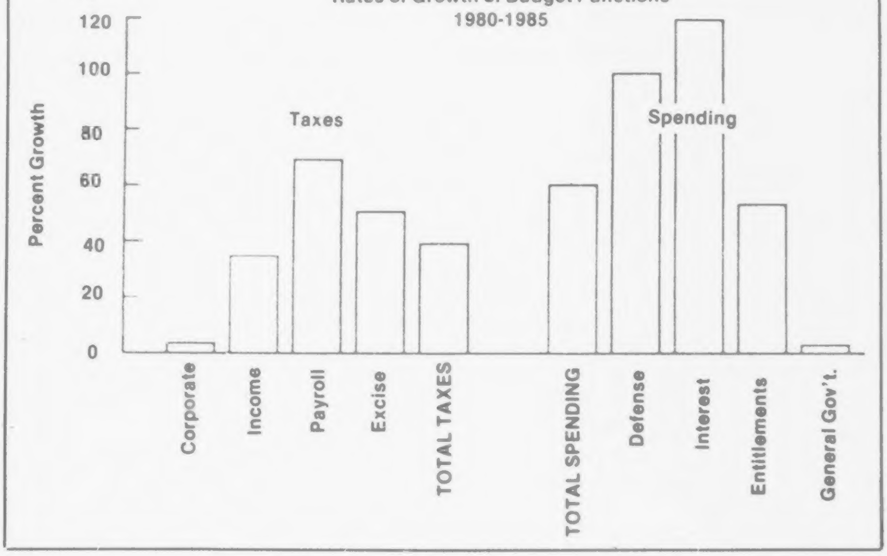
But change requires a plan, and a dangerous trip requires a compass.

Over the last seven years, we have become a nation, a people and a government drowning in debt. Last summer the United States officially became a debtor nation: We owe the nations of the world more than they owe us. Later this year, we will become the world's biggest debtor nation, as well.

Leading this parade of raging insolvency is Uncle Sam himself — $2.1 trillion short of no money at all — with 25 percent of total U.S. public and private debt. We have utterly lost touch with the value of living within our means and we are close to the point where we are going to be asked to account for it.

The big picture shows that federal spending over this period (since 1980) has grown by 60 percent, while revenues have grown by only 40

Figure 1



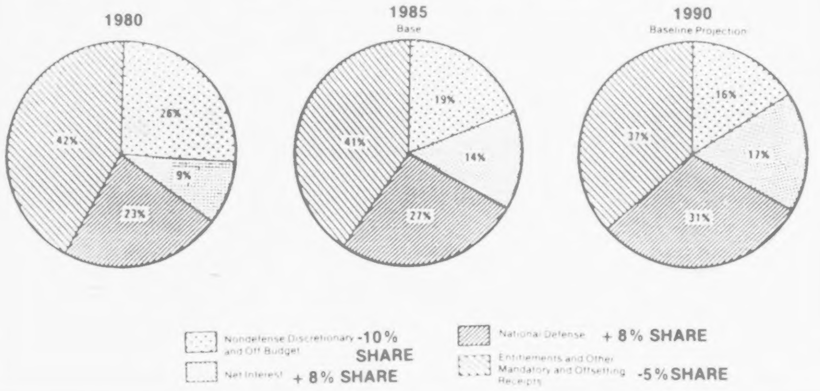
percent. That shortfall between income and spending has sent the budget deficit up by 190 percent.

Take a closer look at government spending during this period, and you will find an equally startling view of our changing national government. Defense and interest payments are up dramatically; spending for income security has held pace with the general increase in federal spending; but spending on all other government programs is a declining part of the federal budget.

General government, on the other hand, will drop from 26 percent of the federal government's budget in 1980 to 16 percent in 1990. "General government" is everything other than defense, interest and income security payments, Social Security, pensions, and the federal participation in welfare programs. So general government is the FBI, drug enforcement, senior citizen social services, environmental protection, farm programs, General Revenue Sharing, the running of government and its relationships with state and local government.

Figure 2

The Composition of Total Federal Spending



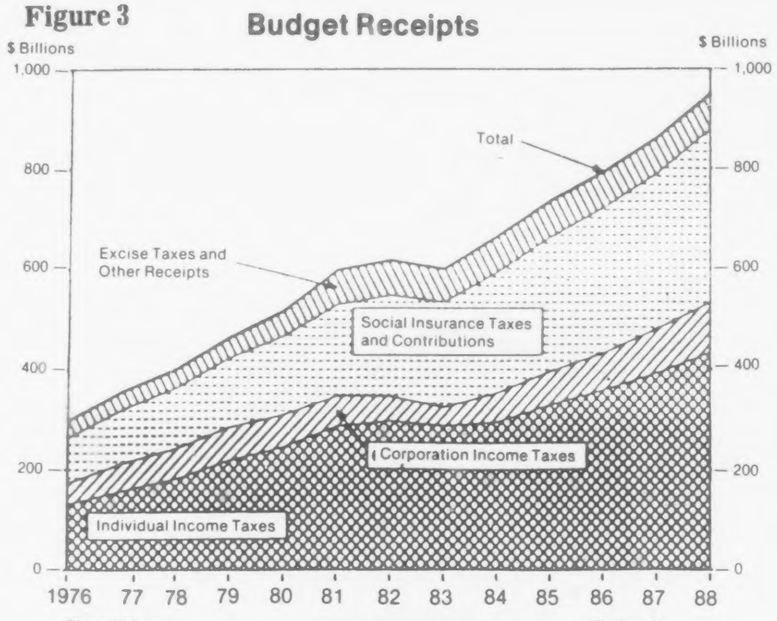
This drop in general government spending as a percentage of the whole has come despite dramatic increases in some programs, like farm price supports, which have almost doubled during this period of time. Spending for the National Institutes of Health, which some think has been neglected, has doubled in this same period of time. So, within the category of general government a lot of spending has increased. But overall spending has decreased and 135 programs have been totally eliminated.

These changes represent a major reorienting of our national priorities — a drastic change in our national purposes.

At the same time, equally dramatic changes have taken place on the revenue side.

The biggest news is that payroll taxes have risen much faster than other revenue sources — they're up 70 percent, just since 1980. Individual income taxes are up about 38 percent. Excise taxes have grown slightly faster than other revenues, because we doubled the gasoline tax in 1982 and made semi-permanent the 16-cent tax on cigarettes. Corporate income taxes, on the other hand, have been frozen; corporate income taxes this year will raise the same amount of money they raised in 1976.

Figure 3



Trends 1980-6

EXCISE: -1% SHARE **CORPORATE: -3% SHARE**

PAYROLL: +6% SHARE **INCOME: -2% SHARE**

So, government is not only spending money for different purposes, it is reaching into different pockets to finance its changing role. And I say we do this with very little thought to what these changes do either to our economy or to our social structure and the needs of our people.

Overall, then, the picture is this:

We've seen too much spending growth for the revenue prospects we now have.

We've seen a dramatic shift in federal government spending priorities: into defense and interest, and away from domestic services.

And, we've seen the tax system move steadily from an emphasis on taxing income to an emphasis on taxing work, through the payroll tax — the most regressive and onerous tax of all.

New Piece of Navigational Hardware

In 1986, the federal government finds itself in need of a new compass so that it steers itself clear of the deficit's rocks and shoals, to the promise of a balanced budget made, but not delivered on, by both Jimmy Carter and Ronald Reagan.

To meet this challenge, our ship of state has recently installed a new piece of navigational hardware called "Gramm-Rudman-Hollings."

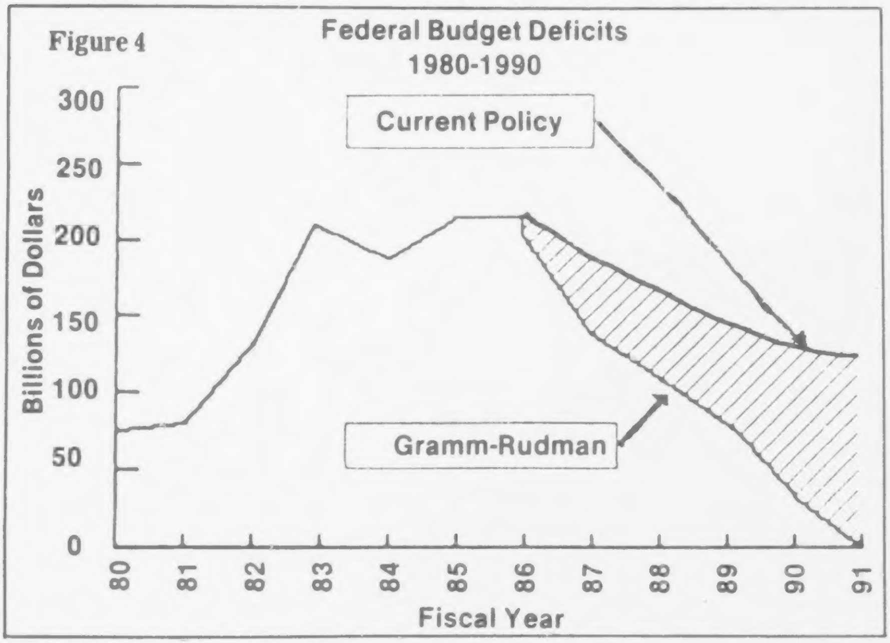
This is, by the way, a now-famous derivative of the much-less-well-known "Durenberger-Gorton" budget plan of 1984. Comparing the two proposals, I've been advised that mine failed mainly because it had too many syllables to typeset into a headline or get comfortably into a thirty-second newsclip. At least I know now not to team up with Rockefeller or Rostenkowski!

Gramm-Rudman is a mechanism or tool to force both the executive and legislative branches of government to take responsibility for reducing the deficit to zero by 1991. It is no more than that. Gramm-Rudman doesn't tell you how to do it, only that it must, by law, be done.

The chart (below) depicts two alternative futures which lie before us.

The top line represents the projected course of federal deficits. These are Congressional Budget Office figures. The deficit — the difference between our appetite for spending and our willingness to pay —

Figure 4



will continue at unconscionable rates until the end of this decade.

The bottom line on the chart is the course of deficit reduction mandated by Gramm-Rudman.

The difference is overwhelming. The area inside the "fork" represents hundreds of billions of dollars in policy changes which will need to be made to satisfy our budget, to live within our means and to satisfy Gramm-Rudman.

A lot of ink has been spilled over the harshness of Gramm-Rudman. It may indeed have a Draconian effect on the scope and nature of the federal government. But the critics of Gramm-Rudman must realize that, in this case, the punishment fits the crime — the cure fits the illness. The deficit which Gramm-Rudman was enacted to eliminate is a heinous threat to our future — and to the lives and livelihoods of our children. Put another way, chemotherapy is worth the suffering because the consequences of cancer untreated are infinitely worse. But, chemotherapy is no fun and Gramm-Rudman will be no better.

So, where do we begin? I'd like to suggest we take four important steps:

First, let's stop pointing fingers up and down Pennsylvania Avenue; let's stop blaming past policies; and let's start aiming ourselves toward a better government in our future.

Second, meeting the Gramm-Rudman targets will require further spending cuts, an immediate leveling off of our extraordinary defense build-up, and additional cuts and reforms or abandonment of general government programs — programs which I noted previously have already "given 'til it hurts."

Third, we must continue to reform our entitlement programs. As chairman of the Senate Health Subcommittee, I have already put $40 billion in Medicare savings into the pot over five years. I will be asked to do more.

And finally, there is simply no way we can get from a $220 billion deficit to zero without raising more revenue from tax reform than the President proposes. And everyone, with the possible exception of the resident of 1600 Pennsylvania Avenue, knows that to be a fact.

The Value of Gramm-Rudman

Just before the President left for Geneva, he invited a small group of congressional leaders from Foreign Relations, Intelligence and Armed Services committees to the White House for a pre-summit pep talk. What developed was an argument between the President and Les Aspin, who is the Democratic chair of the House Armed Services Committee. Les was trying to make the point to the president that you cannot maintain the defense build-up, eliminate the deficit and not raise taxes without repealing the laws of mathematics.

The President disagreed, voicing his optimism that Congress would make the hard choices to make ends meet. Seated next to me was the President's "best friend in the Senate," Paul Laxalt. As the discussion continued, he took the note pad in front of him and wrote the following five letters: T-A-X-E-S.

Therein lies the value of Gramm-Rudman: It will force Ronald Reagan, Tip O'Neill, Bob Dole, Cap Weinberger and the rest of the Congress and Administration to eventually face the bitter reality of the deficit. And that is going to be a new experience for most of us.

As a member of the Senate Finance Committee, I have before me 7½ pounds of legislative language known as the Tax Reform Act of 1986. It represents our fourth attempt in six years at revising the tax code. I am afraid the exercise gives new meaning to Thoreau's statement that there are a thousand hacking at the branches of evil for every one striking at its root. I do not yet know the disposition of my colleagues on the committee, but I, for one, think it is time to take some shots at the root.

No Longer Two Ships Passing in The Night

Two events occurred during the week of December 12, which represent the height of irony. At one end of the Mall, the President was joyously signing into law the Gramm-Rudman budget proposal. At the other, the House was preparing to pass tax reform, the heart and soul of which was "revenue neutrality." With the right hand the government committed itself to $1 trillion in deficit reduction. With the left it approved a status quo revenue figure.

Tax reform and deficit reduction cannot continue to be two ships which pass in the night, unaware of each other's course or speed or destination. Tax reform will be swamped by the effect of mounting deficits; deficit reduction will be listing badly without new revenue of some kind. Only by pointing tax reform and deficit reduction in the same direction, and lashing them together, can we hope to keep the nation afloat.

A former Secretary of the Treasury once said that the country deserves a tax code which looks like someone designed it on purpose. That is what the objective of genuine tax reform should be.

I am reminded of the accounts of the sinking of the H.M.S Titanic seventy-three years ago. As you may recall, there were several other ships in the vicinity of the ill-fated luxury liner that night. She failed to heed their warnings about icebergs. They failed to heed her calls for distress. In our management of the federal budget and our responsibility to maintain the integrity of this government, we should not make the same kinds of mistakes. We should heed the warning and look for help before we need it.

A tax reform which ignores the growth of payroll taxes while it tinkers with income tax rates is no reform. A tax reform which continues to subsidize consumption at the expense of savings and investment is no reform. A tax reform which makes the tax code ever more complex in the name of simplicity is no reform. And a tax reform which ignores the needs of other levels of government as they provide services through deductible state and local taxes and tax-exempt bonds is no reform.

Repent of Our Insistence on 'Having' Without 'Paying'

In the weeks ahead I will be concentrating a majority of my time on remaking the fiscal rudder of this nation. Because I want my children's generation to remember Ronald Reagan's decade as one that not only turned around the ship of state, but set it on a course that everyone in America, especially our children, could afford.

Underlying everything we do should be the moral imperative to repent our large scale swindling of America's young and yet unborn, for our convenience. And to repent our insistence as a society to have without paying.

Each dollar of national debt we accumulate this year will cost my children $28 in taxes during their lifetimes. The staggering debt service which we are passing on to the next generation extinguishes their hope for an America of opportunity and prosperity equal to the America which we now enjoy. We must act now to alleviate the unconscionable generational inequity we are creating by our decisions today.

In charting this new course for America we do not need a "hit list" a la David Stockman. What we do need is a clear statement of national purpose which will serve us, serve everyone, as a sound systematic basis for our decisions.

Working from the Preamble to the Constitution as a starting point, we must sort out, in an era of scarce resources, what the federal government should do, and determine what tasks should be transferred to the private sector or to other levels of government.

In the past decade, we have survived a running aground of our ship of state on the shallows of inflation, malaise and weakness. But we are underway again and have the President to thank for turning our ship in a new direction.

Now, we face new dangers. That will require a bold, new, positive course toward the year 2000. That is the test of leadership today, in Washington and in St. Paul. Ask those who ask for your vote, for your tax dollar, "Do you have a compass? Do you have a course? Do you have a plan?"

It has been said that life is a series of collisions with the future. It is not the sum of what we have been, as much as what we yearn to be.

As Minnesotans we can say there are no prouder people in a proud United States. Let us yearn to work together for a state and a nation of tomorrow that can be prouder still.

"Principals for Redesign"

Remarks to the Central States
Conference of the American Public Welfare Association
St. Paul, Minnesota
September 30, 1984

As a nation in debt struggles with the issue of cutting spending and reforming taxes, those of us who care deeply about the future of this country, and who care deeply about the role of government, need to redesign the partnership between the federal government and state and local governments.

In 1982, the President visited this subject with his New Federalism initiative. At various times since then, he has used the term "New Federalism" to describe a process of divesting the federal government of responsibilities and programmatic responses to problems and passing those responsibilities to state and local governments.

The latest example of this intent came over the weekend when it was announced that the U.S. Department of Health and Human Services is contemplating assigning by contract responsibility for enforcement of some federal civil rights laws to the states.

A new federalism is needed. The partnership must be redefined. But, it must start with a redefinition of the responsibilities of the national government. National government can't continue to be all things to all people. We simply can't afford it.

But we also can't go about this process without a plan. What we need are a set of statements designed to define and redefine the role of the national government. I've given this subject some thought and come up with ten principles for your consideration. I think the statements completely define the responsibilities of the federal government. I'm going to use them as my personal yardstick for what I expect will be a new New Federalism initiative in 1985, and as I approach the more general subjects of deficit reduction and tax reform.

The first principle is clearly constitutional. It reflects the concerns that brought the founding fathers to Philadelphia in 1787. It reflects the freedoms which brought our grandparents to this country.

The national government has the responsibility to secure the national rights and liberties guaranteed by the Constitution to all Americans.

"Secure" is a stronger word than "guarantee." It implies positive intervention by the national government to assure that the result, as well as the intent, is equal opportunity for all Americans.

There are many examples of laws which guarantee these rights: The voting rights act, the handicapped voting rights act (which I authored and which the President has recently signed into law), the Grove City civil rights act (which has tied up the Senate for the past week), compensatory education, equal employment opportunity, legal services for the poor . . . all spring from the national government's responsibility to secure individual rights.

I put this principle first because it is the principle most threatened today. The Republican platform and Republican convention in both 1980 and 1984 dropped my party's traditional support for a constitutional amendment to guarantee equal rights for all regardless of sex, leaving that responsibility to the states. There has also been, the last several years, in this Administration and on the floor of the Congress, an attack on affirmative action through opposition to quotas and mandatory busing to achieve racial integration in schools. The Senate also had great difficulty in reauthorizing the voting rights act last year. And, I am greatly troubled by the "squalid" debate between the Congress and administration over the terms and membership of the U.S. Civil Rights Commission, and now, the incredible battle over undoing the Grove City decision regarding Titles IX and VI on the floor of the Senate. And, finally I'm concerned about the kind of attacks I heard yesterday on the floor of the Senate against the Civil Rights lobby, and how the issue of racism got used in the 1984 campaign, a trend which seems for some reason to be more visible this year than ever.

These trends trouble me deeply, and affirm more than ever the need for the first principle which guides any redistribution of responsibility between levels of government in this country to be continuing the national government's responsibility to secure the rights and liberties guaranteed by the Constitution to all Americans.

Second: *The national government has the responsibility to defend American interests and conduct foreign relations in the community of nations.*

In the context of New Federalism, little comment on this principle is necessary — except that it should cost us less to do than it does.

Third: *The national government has the responsibility to promote* *economic growth and regulate interstate commerce.*

This is a very large principle, but it has only marginal impact on my New Federalism initiative. As a general rule, the national government has discharged this function directly through economic policy and the regulatory agencies.

The next five principles I would call "public administration principles." The subject matter is efficiency and effectiveness in the conduct of government. These five are intended to narrow the scope of the "general welfare" clause in Article I, Section 8 of the Constitution.

These five principles are premised on the belief that the national government should not be assigned responsibility for a problem simply because that problem is widely experienced. The fact that two of every five bridges in this country are deficient does not make bridges a responsibility of the national government. In that sense, bridges are no different from potholes.

Fourth: *The national government has a responsibility where effective intervention cannot be achieved by states acting alone.*

The classic example is the FBI, established to combat organized crime. Weather prediction and air traffic control are other cases where individual state programs would not be effective. Our toughest case today is the interstate transport of air pollutants — acid rain — and the release of the products of genetic engineering unknowingly into our biological system. The lakes of Minnesota or New England — and the farm "breadbasket" of Minnesota or Kansas — cannot be protected by individual states acting alone.

Fifth: *The national government has a responsibility where significant savings can be realized by operating a central program.*

Research and development are typical cases. Finding new technologies to improve highway safety is another. Using that technology by building it into highways, on the other hand, is a job for the states.

Sixth: *The national government has a responsibility where significant benefits are realized by citizens in more than one state.*

Wilderness protection and the preservation of our cultural heritage are the best examples. Individual states can do both, but cannot be expected to bear all the costs of these functions because the benefits are spread to citizens across the nation and to future generations.

Seventh: *The national government has a responsibility when national decisions impose extraordinary costs on some states or regions of the country.*

Think of refugee assistance, for example. When the national government uses its immigration authority to admit thousands of refugees who settle in a few states, the national government has a responsibility to provide extraordinary assistance to those states.

Eighth: *The national government has a responsibility when competition among the states keeps them from implementing programs that would make all better off.*

I think of unemployment compensation. Before the Great Depression, only one state — Wisconsin — had an unemployment compensation program. All the rest had the impression — and a correct impression, at that — that taxing employers in the good times to take care of the unemployed in the bad times would force jobs and new business investment into neighboring states. I think all of us would agree that the national government took a needed step when it imposed a uniform payroll tax across the entire nation to support unemployment programs.

My final two principles are at the heart of the New Federalism debate.

Ninth: *The national government has a responsibility to ease the disparities in fiscal capacity among the states.*

By now, you all understand the fiscal disparities problem. It's crucial to your ability to deliver welfare and social services programs.

As a simple illustration, if Texas and Mississippi had the same tax systems — the same income tax, the same sales tax, the same property and excise taxes — Texas would raise twice as much revenue per citizen as Mississippi. And, Texas is not the richest state in the union. But, Mississippi, the state with the least taxing capacity, cannot maximize the tax effort for fear of losing investment and jobs to its nearby neighbors, including Texas.

That the national government has a role in easing fiscal disparities is a principle already well established. Many of the existing grant-in-aid programs, particularly most of the big ones, include some measure of fiscal capacity in their formulas for allocating assistance dollars.

But, now, we are being asked to send billions of dollars of programs back to the states, knowing that their ability to pick them up is very different. As a result of my amendment to the annual revenue sharing act of 1984, the Department of Treasury is taking an in-depth look at the President's 1982 New Federalism proposals and the fiscal disparities agenda that I've been raising for the past several years. We expect a report to be developed in consultation with state and local officials by next spring.

And, finally, my tenth principle: *The national government has the responsibility to provide for the income security of all Americans.*

I define income security as economic access to a range of goods and services that provide a minimum standard of living, generally achieved in three ways.

For most of us, income security is realized through earnings and savings. That is, wages and salaries, savings accounts and insurance policies.

Company pension plans and IRAs and Keogh plans would also be included.

For many Americans, the national government supplements earnings and savings with social insurance benefits. Social security, Medicare and unemployment compensation are the most important forms of social insurance.

The third part of the income security system is public assistance or welfare. AFDC, SSI, Medicaid, food stamps, housing, foster care and low income energy assistance are the major welfare programs.

Our goal as a nation should be to achieve as much income security as possible for as many Americans as possible through earnings and savings. In Fiscal Year 1985, federal spending on social insurance equals about $300 billion and federal spending on public assistance equals about $70 billion. Together they represent 36 percent of the federal budget. I don't have to remind the people in this room that social insurance is growing much faster than public assistance.

And, why did I speak of $175 billion a year deficits and about the more than $4.0 trillion in private debt? In part, I brought up those two numbers because of the generational inequity we are promoting . . . and in part because that debt can only be repaid out of earnings (private debt) or out of taxes on earnings (the public debt).

Thus, it takes an awful lot of economic recovery to keep current with the demands of my generation and my folks' generation and with the coming demands of our children for equity. We must not leave out the needy and the economically disadvantaged, whose voice at the polls or in the public service delivery system is muted by the cries of waste, fraud and abuse and the call for taxpayers' revolts.

So those are my ten principles. Using them as a yardstick for the sorting out process leaves scores of federal programs as prime candidates for turnback to state and local governments.

So — New Federalism is not the abolition of federal government — or return of responsibility to states. New Federalism must start with a consensus commitment to redefine responsibility of national government and the public welfare clause of the constitution.

Thus, my vision of New Federalism includes the promise to return appropriate powers and responsibilities to the states and local government of our nation — governments which are more readily available and responsive to the needs of individual Americans.

The Community Belongs to All of Us

We Americans are unique in our understanding of citizenship. The community belongs to all of us. We see a problem and we make it **our** problem. We don't wait for the aristocracy or the bureaucracy or the

Congress to invent a solution. We go out and invent one for ourselves.

It is that kind of citizenship which is the source of compassion in our society. It is by participating as citizens in the life of the community that we come to understand the needs of others and see our role in the well-being of the entire community.

If the federal government limits itself to the functions I've suggested, then the big challenge for state government — for you and your colleagues — is public service delivery. Education, transportation, recreation, job training and rehabilitation, child welfare and nutrition, corrections and criminal justice, community-based long-term care, public health and sanitation, and social service delivery systems will be the focus of state and local governments in the new federal partnership.

We need to look away, now and then, to forget the swaps and turnbacks and formulas and recall why we are seeking a new federal partnership. This initiative should be simply a reflection of what for 200 years has been the source of our humanity: the opportunity for the individual citizen to play an active part in the community. That's an obligation which will become even more important to each of us as we face the challenges of the years and decades ahead.

"We don't need to ration health care in this country. But, we do need to rationalize health care spending — to help all of us spend our finite resources more wisely."

3 Health Care in Transition:

Pickles No Longer Pay the Bills

Driven largely by concerns over rapidly rising costs, health care in America is in a period of rapid and necessary change. Much of this change is being initiated by the federal government through major reforms now underway in the Medicare and Medicaid programs. These reforms, many of which are being duplicated by private insurance plans, offer greater incentives to both health care providers and consumers to hold down costs. Hospitals are being paid on the basis of a patient's diagnosis, rather than by totalling up all the items on each hospital bill. And, more and more individuals are being offered the chance to select from among several alternative health plans in an increasingly competitive health care marketplace.

3

"Just a Little Bit Ahead of Its Time"

Remarks to the
National Blue Cross/Blue Shield Plan Payment Conference
Minneapolis, MN.
September 12, 1984

The problem and the opportunity that drives us all right now in health care reform is largely cost. And that's not unique to health care. Why do people write books on national security policy? It's because defense costs too much. It creates big deficits. It creates expensive lightbulbs and wrenches and airplanes that cost $225 million and crash in the desert.

With good reason, the country is upset. A lot of people are asking, "Why does it cost so much and produce so little?"

Those of us in the health business just happen to be on a sharper curve, with the exception of defense, than all these other things. So, it seems like the pressure is a little heavier on us. But also, we are the only ones that are doing something about the problem in terms of major system reform.

They are not reforming the defense establishment in Washington. They are only adding dollars to it. They're not reforming the process of arms control and negotiation. They still assume that whenever the President can find a living president in the Soviet Union, then we will have a summit conference and that's arms control. That's last decade's thinking. And those of you who are a little older around here can compare the way Blue Cross thought ten years ago institutionally with the way it's thinking today. Health care is just a little bit ahead of its time. Everybody else is either putting money in or taking it out. We in the health business are tackling the problem by fundamentally changing the financing incentives and the way we deliver services.

The reason we're doing it, I guess, is that we're in the business of bringing people into life and keeping them alive. So maybe we have the most important challenge. That's not to denigrate the importance of arms control. It's only to say that we get to save or assist somebody everyday.

Cost is Driving Reform

So it's cost that's driving reform. How did we get to where we are? We got to where we are because we didn't have enough when we started. Health care in this country largely was a charitable process for many, many years. The nuns were in the business and that's the way we did our health care. Yes, we had some private practitioners and people did make some money, but they also were paid with pickles and a side of beef now and then. So largely, this business, particularly if you look at it from the hospital side, was a process of love and charity and extending yourself for other people.

That was true until we started into the twentieth century in America and people started to say, "we can do better and we have to do better."

The first employer group health plan was created in 1904. Others followed and thus was born Blue Cross and Blue Shield. Blue Cross and Blue Shield started out as economic protective associations for hospitals and doctors. They didn't like pickles and sides of beef. They wanted money. It seemed to be a common currency. Hospitals and doctors created Blue Cross and Blue Shield, and went to the employers in the country and made deals called health insurance and pretty soon they didn't have to worry that much about getting paid.

By 1954, the country decided this economic protection was a societal good that should be financed by taxpayers rather than by employers and employees. So we reformed the federal tax code saying, in effect, the most valuable place to guarantee people's access to health care is in the employment setting. We decided one of the arrangements that people ought to make with an employer when they go to work is to have the employer provide a benefit they might not provide for themselves if they were paid only in cash.

So we said, "Look, if you buy health insurance for your employees, you can take a business deduction for your premiums and we will not treat those premiums as taxable income to the employee." So America begat free health insurance paid for by the taxpayers and provided by employers.

We made that decision in 1954 and, in turn, facilitated the spread of group coverage. By 1965, the pressure was on from people that didn't have an employment setting to get cut in on the same deal. So government brought in lots of other folks by amending the Social Security Act. We brought in the poor through Title 19 - Medicaid. We brought in the elderly through Title 18 - Medicare.

Now we had a system in which most people in our society were guaranteed economic access to the health care system.

So, what I've called the "charity period" begat the "access period" which begat the "free-lunch period." That's the period from '65 to '80 in which everyone assumed when they go to work one of the things they get is free insurance. Once they become 65, it's free, too. And, if you're poor, you have a "right" to access to free health care.

The End of the 'Free-Lunch Period'

By the end of the free lunch period a lot of Republicans were being elected to Congress in states that had always been represented by Democrats. And Proposition 13 passed in California, and people who said I'm going to raise taxes ended up looking for work.

Network anchorman, Joe Beal, had millions chanting out windows: "I'm madder than hell and won't take it anymore." All of a sudden we said, "Hey, something is going on around here. Something is happening." And what was happening was that people decided this system just cost too much and produced too little.

They weren't going to blame themselves for the problems, of course. You know that. So, who were they going to blame?

Well, start with the politicians. Throw the incumbents out, mainly Democrats, and put in Republicans. Hey, terrific for me because I'm a Republican. A little hard on Birch Bayh and Frank Church and Gaylord Nelson and all those people that went out in 1980. But that's where they started.

Now you know where they are. They're on you. And, especially they're on the doctors and the hospitals . . . blaming somebody else.

I guess I've come to the conclusion that we're all to blame. We all have some role to play in this. The notion of Blue Cross as a hospital or Blue Shield as a doctor protective association is a part of the problem.

The nation of tax-free health insurance paid unevenly across the spectrum of America is part of the problem. The Medicare/Medicaid entitlement is part of the problem.

Without question, the federal government has contributed to the problem. We invented Hill-Burton . . . the "chamber of commerce approach" to health care. Everybody has to have a hospital. Everybody has to have a doctor. If you have a high school, you have to have a hospital. All you've got to do is to be sure you take care of the poor.

Cross-Subsidies and Tax Advantages

Institutionalize all of these cross-subsidies in tax- advantaged third party insurance and we were doing it all over. We did it in the airlines. We did it in trucking. We did it in telephone service. We created suburbs by taxing the people in the core city to send sewer and other utility services out to the suburbs so that people could flee from the problems of the city, live more cheaply, have their income taxed to send back into the core city to pay for the problems created by the flight to suburbia.

We created a system of subsidizing things that we didn't want to address specifically. We didn't want to deal with the costs of bringing telephone service or electric service to rural areas or sewers to suburbs. We want to hide that cost or we'd never get it done. And we did the same thing in the health insurance area. We helped with Hill-Burton. We've done it with NIH research grants. We've done it with all of these manpower programs. Five years after we have a doctor shortage, we decide to eliminate it with money. And five years after we have a doctor surplus, we're going to chop down the money tree.

We've done it with the Veterans Administration. At the same time post-World War II that we were going to consumer choice in higher education by creating a G.I. Bill, we decided we couldn't do that in health care. We can't give people choices. We created veterans hospitals.

And now look what that system is costing us in America. What if we had just taken the same approach to health care forty years ago that we took to education. What if we had said, "Here's your G.I. health bill. You go buy health insurance?"

Well, we'd have lost something. The Veterans Administration can point to its contribution to medical education as very significant. You pull the V.A. out of graduate medical education in America and a lot of academic medical centers go down the tubes. The same is true if you pull out some of the wonderful research they do in the veterans hospitals.

So the V.A. approach has made a contribution. But just what if, **what if** we had had a "G.I. Bill of Health?"

So, in many ways we have all contributed to this problem and we all have to be part of the solution to the problem as well. The question boils down to, "How are we going to go about doing it?"

As I've said now for the six years that I've been in the United States Senate, the choices are relatively simple.

We can continue with the way we're going. But nobody wants us to.

Or, we can find some kind of a public utility model to apply to this system. Treat hospital systems like power companies and say that every hospital is going to survive, but it has to go through a state public utility commission to get its rates approved every year. You could turn this whole system into a public utility, like they're doing in Massachusetts, New York, New Jersey, and Maryland.

Or you can get back to the G.I. Bill of Health. You can return to consumer choice. You know I want to go back to consumer choice, and I'm not going to defend all the reasons why. I will attempt to describe some of the ways that I think the post-free-lunch-period federal government is moving us in that direction.

The first, of course, is in Medicare. To be blunt about it — and I can say this because I'm one of a few members of the board of directors of this particular insurance company that goes to work every day — I want to get out of the insurance business. You're too good at it and I want you to get even better. The 536 people who currently run this insurance company called Medicare should get out of the business because we don't know what we're doing. And you know it. But it's hard to get out of the insurance business when you have 32 million customers out there, not to mention all those fiscal intermediaries depending on your business. So it's a little tough to get out of the business.

But we're trying anyway. And we're doing it on two tracks.

Payment by Episodes of Illness

One is the prospective payment system in which the federal government acts as a prudent buyer to the extent that we can in a new system of payment for hospital inpatient services. As you know, we have set up 467 Diagnostic Related Groupings (DRGs) and Medicare now pays hospital on the basis of diagnosis, rather than totaling up all the items on each hospital bill.

Unlike other regulatory systems, this one is designed to provide incentives for more cost-conscious behavior by hospitals, and thus more opportunities for the other health plans and insurers to come in and help us turn this provider system around.

The key to the prospective payment system is paying by episode of illness rather than the old cost-based reimbursement system. The next stages in the development of the PPS system will be to bring in all the other providers. I don't know how we bring the doctors in. Maybe you can tell us exactly how to do that. But the direction in which we hope to move is to expand first to skilled nursing facilities, then to hospice and home health, then eventually to doctors. Make a payment to the doctor and let him make the decisions about where people ought to go. Then when I go to these small towns that have just over fifty beds, I don't have to answer the questions about swing beds. Let a pro make the decision. If they think they can get by with a cheaper bed in a hospital, well then fine. Make that decision. But don't try to let me set up a system that decides on the basis of hospital beds who is efficient and who is not.

We know there are some things wrong with this current system. If you want to replace two knees at the same time you can't do it. You have to send them in one knee today and the next knee tomorrow. We know we have to have a severity index or this regulatory system will kill people rather than help them live longer.

There are other things we have to do. We have to deal with the issue of capital. Right now we're passing that one through. We have to deal with the issue of graduate medical education. In effect, we're passing that one through, but we can't do that one very long. Then in 1986, we have this national average coming when everybody's going to be treated the same. And you'll hear the argument that if you pay 1.3 percent of your income into the trust fund, you shouldn't take out half again as much in Boston as you do in Minneapolis. That just isn't fair.

And in all of that, you know there's something else we're doing. We are changing the way we practice medicine in America. Going to an episodic approach is supposed to let a doctor in one town know he doesn't have to cut, cut, cut because next door those doctors, for some reason or another, are leaving the tonsils in. They're not doing all the hysterectomies. So a large part of this episodic approach, even though it's regulatory, is to deal with the issue of practice patterns.

Next Step: Medicare Vouchers

I said we're on a two-track system. The second track is, in effect, the "G.I. Bill of Health." That track is exemplified by the provisions in the last tax bill which mandate a voluntary voucher system for Medicare. The voucher system for competitive medical plans should take effect January 1, 1985.

You know about the experiments, particularly in the Twin Cities. Forty-two thousand folks signed up here in the Twin Cities and it's starting to expand. It even caught my folks out in the country seventy-five miles from here with a $19.75 a month competitive plan. You can't beat that.

So that is the basic track that Medicare reform is on. Get out of the insurance business. Get to a dollar amount, depending upon your age and your sex and your previous health condition and the average community cost of health care. You or some other competing health plan comes in and picks up the dough when those people say I want Blue

Cross's PPO or I want Blue Cross's indemnity plan. At that point, we're out of the insurance business.

Means Testing and Catastrophic Coverage

There are other aspects of Medicare reform. I think you're probably all aware that I've had two bills in since last November which you might call structural changes. One is income testing for Part B. And eventually I hope that gets to Part A as well. But, I started with Part B, because that can't be considered an entitlement program. Those of you who favor Governor Bruce Babbit of Arizona, as the Democratic candidate in 1988, should know he's campaigning on universal means testing.

The only way society can satisfy the needs of its poor is to reduce its equal pay out to the rich. That philosophy is reflected in my bill that income tests Part B. In fact, what I've done is drop the premium contributions from 25 percent of program costs down to 20 percent. You could take it down to 15 percent. You want to make sure the poor can buy Part B. Then my proposal would get 90 percent of program costs back off everyone's tax return at one percent of adjusted gross income up to a maximum of $555 a year.

If you dropped the premium from 25 percent to 20 percent, you could get back all the money you need from only half of the taxpayers. So it's not difficult. And it's certainly not a burden on the elderly.

The other part, of course, is catastrophic coverage. If we'd only given those people catastrophic in '65, we might have saved everybody a lot of money in supplementals. The best catastrophic approach uses hospital co-pays of $21 a day from the second day to the sixtieth day to pay for catastrophic over $2,500 a year out-of-pocket. The proposal can save money for Part B subscribers by making their Medigap policies more premium price competitive. Those are the two major reforms that I have proposed.

In conclusion, it seems the old notion of insurance is going. We all helped destroy it. Insurance was supposed to be something that protects people against financial catastrophe. We took it and turned it on its head and said. "Insurance is just all the sick care you can get."

My challenge to you today is to help us redefine the definition of health insurance. I don't want to have to do it, because I'm trying to get out of that business. I'm just trying to set a philosophical groundwork for **you** to tell us how **we** can make consumer choice in health care effective in our future.

"The Doctor Never Turns Anybody Away"

Remarks to a Health Care Conference
Sponsored By The Pfiser Corp.
Miami, Florida
April 28, 1985

I know the American Medical Association has been against National Health Insurance ever since Teddy Kennedy came to Washington. But, in reality, we've always had a "National Health Insurance System" in this country. It's called: "The doctor never turns anybody away."

I like to use the illustration of Biwabik, Minnesota. If you got sick in Biwabik years ago, you came and knocked on the doctor's door in the middle of the night. The doctor's wife came to the door and said, "Oh, hi, Tilly, how are you?" "Oh," Tilly says, "I have some horrible pains." "Well," the doctor's wife says, "Come on in and I'll wake up Mike."

So, she goes in and she wakes up the doc, and he comes and he sits there and talks, and then he makes a decision. He is either going to treat her on the spot, or he's gonna put her in the hospital overnight. That was the community hospital. Nobody ever refused to open the door, and the poor doc was stuck there 24-hours-a-day.

The point is, we've always had that kind of a national health insurance system in America, and it's been community-based. When we couldn't pay for it with cabbages and pickles and sides of ham, we created taxes, and the church held bingo parties to pay for it.

But when we increased the cost of the doctor opening the door, and we increased the demand for the best in hospitals, the Biwabik Hospital became a nursing home. And everybody went to the next town where they had the Miners' Hospital, paid for by the iron ore industries. It was a beautiful hospital, and just by looking at it, you'd feel you'd get better care there than in Biwabik.

But, with this sort of unlimited demand and this need to have treatment, the prices for the doctors, for the hospital, for specialization and everything skyrocketed, just like housing prices.

When it reached a certain point, we had to find ways to subsidize it other than by the so-called "national health insurance system," whereby everybody who comes in the front door gets taken care of. And, at that point, we adopted a system for the elderly, the disabled and the poor. We said, "If you can get health insurance by going to work, why shouldn't you be able to get it when you're elderly, disabled or poor?" So we created Medicaid and Medicare on the same model.

But we made the same mistakes. The beneficiaries didn't pay for it. The worker didn't pay for his own insurance. Instead, we found a way to make the worker pay for somebody else's insurance, like Medicare and Medicaid, either through their taxes or through something else. We didn't want to cause anybody **not** to have coverage, and we were afraid that people might not want to have it if we said they had to pay for it. So, we had a system in which I would pay for somebody else, and somebody would pay for me.

Where was the constraint? Well, it wasn't there until we reached something over $300 billion in total Medicare/Medicaid costs. Then, all of a sudden, we started putting the brakes on. And we put the brakes on in the same way we put the brakes on the politicians: We said, "We're going to cut back on your money."

Responsibility and Consumer Choice

Well, change is coming. The answer lies in responsibility and consumer choice.

I ought to have the opportunity to know that if I don't smoke, don't drink, and wear a safety restraint in my automobile while I'm driving, it pays off someplace. It should pay off when I buy my automobile insurance policy, or my life insurance policy, or something. There should be some price tag that says ' You are hereby rewarded by society for maintaining your health, for avoiding the risk of an accident." We're just at the edge of that today.

That's one part of consumer choice. The other part is related to a choice of health plan. When I go to work, don't hand me a policy that I don't understand. Involve me in the consequences of my health. Give me an opportunity to make a choice of health plans.

And it is that part of the system that is growing in this country. That's what's giving you the HMOs and the PPOs and IPAs. It's the individual choice. The result is that the consumer will one day wake up to the fact that it isn't the doctor or the hospital who's at fault in rising costs. The fault lies with our own individual choices, taken 232 million times, every year.

At that point, when a light goes on in the minds of enough people in this country, you will see more realistic approaches to health care financing on the part of the federal government.

“Rationalizing Health Care Spending”

Remarks to a Providence Journal/Brown University
Public Affairs Conference
Providence, Rhode Island
March 13, 1985

You will not hear me criticize this nation for spending 11 percent of the GNP on health care, or suggest that we cap those expenditures at eight percent or allow them to rise to 15 percent. Numbers are not the issue.

The issue is that our health care system, encouraged by federal policy, has largely given the public the impression that health care is a free lunch — or at least a darn cheap one. What you pay for has little relation to the value of what you're buying. We need to reform the health care system, to give it the kind of incentives that allow us to spend our dollars wisely . . . To make cost-effective decisions about how much, as a society, we want to pay for health care.

I'm not saying we should give in to those who talk about a need to “ration” health care. Rationing means deciding whether our society wants to support this handicapped baby or this terminally ill grandmother. We don't need to ration, we need to **rationalize** health care spending — to figure out how to spend our finite resources wisely, so we don't have to ration.

So, where does all this leave us, in the health care system that exists in the mind of Dave Durenberger? Under my ideal world, the worker becomes a smarter shopper, and pays for what he gets. The elderly and disabled have a Medicare system better tailored to their needs. The poor have financing to give them access to health plans. The individual tries harder to stay well. Health care providers have moved to a price-oriented marketplace. Consumers have choice, and you can bet they choose what's best for them. That includes buying the best quality health care for their dollar.

This is not just a daydream I have when I'm holding a Health Subcommittee hearing. I have seen part of it become reality. I'd like to say the Congress will go full steam on the rest of it, but you wouldn't believe me anyway. The point is, if the federal government is going to meet its responsibility to ensure adequate health care for every American, the system has to change. And, slow as it may be, that change is already well underway.

Prescription for change

> *"What's the sense of paying millions of dollars for children to struggle in critical care beds when we could invest in the best incubator of all — the mother's womb?"*

4

Prevention and Wellness:

Twin Goals of Health System Reform

Two essential goals of health system reform are an increased emphasis on wellness and on preventative care. Because of growing concern about the cost of health care, serious thought is being given to the alternative of rationing. But, by spending more money up front, to prevent illness and accidents, enough money can be saved on the longer-run to eliminate the need to ration care. Americans need greater incentives, through the Medicaid and Medicare programs and their own private health plans, to stay well and live healthier life styles. As a nation, we must focus much more of our efforts and resources on wellness and prevention, both to reduce health care costs and to improve the quality of life for all Americans.

4

"Putting Our Money Up Front"

Remarks to the
Dedication of Minneapolis Children's Medical Center
Minneapolis, Minnesota
February 24, 1985

I'd like to focus today not so much on care for the sick, but on the other task of modern medicine — the prevention of illness. I say this because our nation's health care system must be judged not only on its ability to cure our sickness, but also on its ability to keep us well.

That emphasis on prevention — on "wellness care" — is one of the greatest challenges facing our health care system and our government today. It has been the cornerstone of this institution from the day Jim Miles and Arnie Anderson laid its foundation as a total health center.

Tomorrow morning, the Institute on Medicine will release a study that contains some sobering findings.

First, between 1965 and 1980 we reduced the infant mortality rate in the United States by more than 50 percent — cut it in half. That's an impressive achievement, and the study gives the credit largely to advances made in neonatal intensive care units, like the one here at Minneapolis Children's.

But there's another side to the coin: Giving infants a fighting chance to be **born** healthy. Saving a new life **before** it becomes imperiled. And there, this nation's record is not so impressive.

This new study I refer to, titled "Preventing Low Birthweight," is about the medical problems of infants who weigh five-and-a-half pounds or less at birth. It found that low birthweight babies are nearly 40 times more likely to die during the first four weeks of life. One out of five babies who die in those first few weeks die because of low birthweight. Low birthweight also carries a higher risk of problems like mental retardation, cerebral palsy, epilepsy and learning disabilities.

And here's the capper: In the decade between 1971 and 1981, we have only reduced the number of low birthweight babies by less than one percent.

We know the type of woman who is more likely to have a low birthweight child. She is under 17 or over 34. She is black. She is poor. She is single. She is uneducated. She does not eat well. And she has received little or no prenatal care.

The study points to adequate prenatal care as a major step in reducing the incidence of low birthweight babies. Effective prenatal care includes everything from regular medical exams to nutrition counseling to education about pregnancy risk factors like smoking.

But many of these poor women simply can't afford it. And although a great many are receiving Medicaid, the program does not provide the coverage they need to get comprehensive prenatal care.

Like other preventive measures, prenatal care saves lives. It is also a smarter investment of our health care dollars. And in the real world, filled with growing expenses and finite resources, smarter investment is the name of the game.

In short, we need to spend more money up front to reduce the need for high-cost care. Until we do, more and more children will be laid up in ICU beds like those in this hospital. And although the care is excellent, it is also extremely expensive. It is part of the proliferatioin of costly technology that pushes up our health care bill year by year by year — a bill that now amounts to nearly 11 percent of our Gross National Product.

No Need to Ration Health Care

The search for cost-cutting tools has led to some fairly frightening talk. Many people are talking about a need to "ration" health care services. In other words, to decide whose life we should prolong with our scarce dollars, and whose we shouldn't.

Rationing means making a decision about whether or not to keep a very low birthweight baby alive. It is the assessment of quality-of-life criteria for judging the right of certain handicapped newborns to life.

My mother sent me a "living will" because she doesn't want to be kept alive with all the machines and gadgets. If she ever gets to that point, she wants me to pull the plug. I don't want to make that decision as a son, and I know you don't want me to make it as a politician.

The solution is not **rationing,** but **rationalizing** our health care dollars. That is, spending each dollar more wisely so we don't **have** to ration.

It's an issue that was brought before the public very effectively in a recent report by the Minnesota Coalition on Health Care Costs, headed by David Graven. That report pointed out the need to reassess our health care priorities, and to put more emphasis on prevention — including the area of prenatal care.

We know that we can reduce costs by providing the services to make a baby healthier **before** it is born. To take advantage of the best incubator of all, the mother's womb.

Prenatal Care Under Medicaid

With this in mind, tomorrow I will introduce The Maternal and Child Health Amendments of 1985.

These amendments give states the option to provide more comprehensive prenatal services to women who are receiving Medicaid funds. For the first time, states will be allowed to target specific preventive services to pregnant women. Under current law, any additional Medicaid services must be made available across-the-board, to all recipients.

For example, many state Medicaid programs now pay for physician visits but not for services of nurses, nurse practitioners and similar health care providers. Those nonphysician services can fill many of the needs of pregnant women. My bill would allow states to provide coverage for these services without providing similar coverage to all Medicaid recipients.

States would be encouraged to fund combinations of activities shown to be effective in reducing low birthweight, such as health education, outreach services, nutrition counseling, quit smoking clinics, stress alleviation, and risk assessments.

My bill will also help mothers, by allowing the states to provide them special services for up to 60 days after the birth. This would include such services as health education and family planning.

There is little question that this type of approach both improves maternal and child health, and saves a substantial amount of money. In one demonstration in California, pregnant mothers who received comprehensive prevention services had 50 percent fewer babies born with low birthweights than mothers who did not take part in the project.

In addition, for every dollar spent on prenatal care, the state saved two dollars in Medicaid funding during the child's first year of life.

We are talking about saving or improving the lives of a great number of infants. About six percent of all live births in the United States go to neonatal intensive care units. That's 230,000 infants every year. According to the Graven Commission, the total national cost of neonatal intensive care was more than three billion dollars in 1983.

But again, we are talking about putting money up front in order to save in the future. And that brings up the one big barrier standing in the way of my bill and other measures of health care reform: the almighty deficit.

Next year the federal deficit will be $215 billion — by 1990, almost $300 billion if we don't do something soon. Each plump, healthy baby enters the world with a personal debt of $10,000 for each year the deficit goes on.

This kind of deficit cannot be solved by cut-and-paste budgeting. But we are stuck in a budget process that doesn't know how to reform, only how to freeze or cut or increase. There's no room for substantive change. No flexibility for investment in our future.

I'd like to tell you this will change in the very near future, but you probably wouldn't believe me and I wouldn't believe it myself. It's going to be slow. But every bit of meaningful reform we can achieve knocks another chip off that huge red barrier of a deficit looming ahead of us. With health care we have the knowledge and we have the means to make reform work.

The federal government has a responsibility to ensure that all Americans, rich or poor, have access to health care that is high quality and affordable. And, it has the responsibility to preserve that health care system for future generations.

Doing either of those things requires the invaluable contributions of excellent insitutions like Minneapolis Children's Hospital. They are challenges we share, and I look forward to our meeting them together.

"The Quiet Revolution in Health Care"

Remarks to the 25th Annual Meeting
of the Park Nicollet Medical Foundation
Minneapolis, Minnesota
Friday, June 14, 1985

My parents' generation created tax deductible group coverage, and first dollar coverage, and a system where I could get sick and never have to worry about who was going to pay the bill.

You know what it was like: "Come in the night before for your gall bladder surgery — no problem — we'll just send the bill to Medicare."

"Stay an extra day so your husband can finish up his fishing trip in Canada — no problem — just send the bill to Blue Cross."

It almost got to be a pleasure to go to the hospital. Where else can you go and get a few days off from work at full pay? Your fellow workers will even send you flowers and candy. And, you get waited on from morning to night.

But, you know what's happened. In 1985, health care will cost Americans an estimated $456 billion — a more than eighty percent increase in just the past five years. That's nearly $1,900 a year for every man, woman and child in this country — nearly 11 percent of all the goods and services we produce as a society.

In 20 years, Medicare and Medicaid have grown to be ten percent of the national budget. And, somewhere, a couple of years ago, I and a lot of other politicians started to get the message that we were nearing the edge of what people are willing to pay, not just for health care, but for lots of other things we finance together as a society.

In other nations . . . perhaps under other leaders . . . the challenge of finding a better way might have been met by rationing care — by denying treatment to some according to a government-devised cost-benefit calculation.

I knew we might be going too far when, one day, a couple of years ago, I received a "living will" in the mail — from my mother.

I'm sorry, but as a son, I'm not willing to make that choice. And, as a politician, I'm not willing to set up some kind of arbitrary checklist that tells doctors and other health care professionals when they ought to pull the plug.

And, I'm convinced that's not what the next generation of Americans wants as a national health care policy either.

The 'Sick Care' Subcommittee

This morning I had the privilege of chairing a meeting of my Health Subcommittee and, there, in front of me was Les Breshlo of the School of Public Health at the University of Minnesota and one of the nation's experts on health prevention and health promotion. Next to him was Jim Hunt, trained at Mayo. Next to him was Bob Kane, someone who is well-known around here and now about to take over the School of Public Health at the University of Minnesota. Impressive, impressive contributions have been made by each of these people in broadening our view of what health care is all about.

When I was introducing the hearing this morning, I said, "There is something wrong with this subcommittee. It shouldn't be called the

'Health Subcommittee.' It ought to be called the 'Sick Subcommittee.' It ought to be called the Sick Subcommittee because Medicare and Medicaid just take care of sick people."

I also said I would like it to deserve to be called the Health Subcommittee, meaning that maybe Medicare and Medicaid and all the other programs we fund ought to be doing lots more about disease prevention and health promotion. But, this is the first time we've ever talked about that subject in that committee — three hours with people from all over the country.

But, it's tough to get the message outside of that room. I think there was only one television camera there. There was no ABC or CBS or NBC or Cable News Network, or anybody else there that morning. There we were for three hours talking about a subject that could save this country billions and billions of dollars, and there was hardly a soul, other than the "experts," that cared about it.

Of course, there's very little exciting about health promotion and disease prevention, except that it has a lot to do with human beings, and it has a lot to do with making the one life we have a lot more enjoyable and a lot more rewarding.

Well, there wasn't much of a crowd five years ago, either, when a few of us here in this room first talked about consumer choice in health care, and competition, and the kind of things that are now bringing what I like to call the "Quiet Revolution" in health care to every part of this country. Making more choices in health care — or encouraging people to stay well — doesn't make very good television pictures, but it's going on — more here than in a lot of places — but it's going on.

"An Ounce of Prevention"

Remarks to a Conference on Public Health
Hamline University, St. Paul, Minnesota
January 17, 1986

I've talked a lot over the past few months about the responsibility — the obligation we all have to the next generation — to our kids.

Well, how are we doing in carrying out that responsibility?

A study prepared by the Congressional Research Service and the Congressional Budget Office was released a few months ago that pointed out some pretty startling answers to that very important question:

The study found, that nearly one out of every four children born today is born into poverty.

Among poor Americans living in 1983, forty percent were children under age 18.

In the last decade, federal spending for income security has risen steeply. Yet, the majority of these payments were made to the elderly through Social Security — payments which have helped to significantly reduce the poverty rate for older Americans.

Yet, at the same time, federal child assistance programs have actually decreased. And, over the last ten years, child poverty has increased by one-half.

Poverty is the greatest killer of children today. A study conducted by the state of Maine estimated that 10,000 American children die each year from poverty.

We live in a nation in which the president of Chrysler Corporation receives a $2.0 million annual salary and a tax-paid $325.00 per month health insurance plan. But we also live in a society where 12 million American children have no health insurance, whatsoever.

These trends help to explain why we are seeing more and more poor children getting medical attention only as a last resort.

These children don't get preventive care, and our government's health care financing system isn't set up to see that they get it.

Without preventive care, as you well know, a minor problem can easily become a serious — and expensive — illness.

When my Health Subcommittee took a look at preventive health care, we found that our state's Medicaid regulations don't allow reimbursement for comprehensive prenatal care.

What's the sense of paying millions of dollars for children to struggle in critical care beds when we could invest in the best incubator of all — the mother's womb?

It's shocking — and a national disgrace — that the United States of America still ranks thirteenth in infant mortality among industrial nations.

This concern about prenatal care for poor mothers was a major factor in legislation I introduced last year which is now awaiting final passage in the budget reconciliation bill pending in the Congress.

My legislation is very simple: It allows states to finance prenatal services under Medicaid without necessarily requiring similar preventive health services for all Medicaid recipients.

This legislation is just one small step — but it's a step in the right direction toward recognizing that an "ounce of prevention is very often worth at least a pound of cure."

The reality in the new world under Gramm-Rudman is that those of us who care about health care — and especially those of us who care about children — are going to have to be especially vigilant in pointing out this old and very wise rule of medical science.

Under Gramm-Rudman, at least some of the programs affecting the health and welfare of families and children are protected from automatic cuts.

They include Medicaid, AFDC, child nutrition, food stamps, SSI, and the WIC program.

But, fully exposed to Gramm-Rudman cuts are a whole series of programs including Head Start, Maternal and Child Health Block Grants, and Child Welfare Services.

In the first couple of rounds of cuts that are coming, my best guess is that Maternal and Child Health grants should be safe — assuming that the Congress is able to agree on the 4.3 percent cuts the administration has proposed to meet the Fiscal 1986 deficit target by the March 1 deadline in this year's accelerated Gramm-Rudman process.

If Congress doesn't meet the March 1 deadline, and make the cuts it has to, however, the required 4.3 percent budget reduction would be applied across the board and maternal and child health funding will be affected.

Current maternal and child health funding in Minnesota is about $7.5 million per year.

Two-thirds of this money goes to local community health agencies — a lot of which goes into prenatal care in rural parts of this state where a lot of people are being forced by economic circumstances to give up their insurance — and, with it, preventive care.

The Preventive Block Grant is another program that's vulnerable under Gramm-Rudman. In Minnesota, it amounts to about $2.0 million per year.

The majority of this money goes into local emergency medical programs — things like training firefighters in rural communities to be EMTs.

Most of you know that EMTs provide much of the emergency medical care in a lot of sparsely populated areas around the state. They're on the front lines — and training EMTs is a very low-cost way of providing essential health care for thousands of people in rural parts of this state.

No investment is better, wiser, more significant, than the investment we make in our children. In the words of James Agee, "In every child who is born, the potentiality of the human race is born again."

There is simply no stronger imperative than producing healthy children. Without that, we are simply legislating ourselves into an empty future.

That's the legacy we owe ourselves and future generations. It's an obligation on which we cannot afford to default. With your help, it's an obligation which I intend to fight to keep.

"An Investment Up Front"

Remarks to an
American Public Health Association Rally
U.S. Capitol
Washington, D.C.
November 19, 1985

Seven years ago I was elected to the U.S. Senate to fill some very big shoes, those of the late Hubert H. Humphrey. Hubert Humphrey had an unusual empathy and compassion for the less fortunate in our society. And I often think of the observation he made back in 1977, not long before his death, at the dedication of the Department of Health, Education and Welfare office building which bears his name.

He said, "The moral test of government is how that government treats those who are in the dawn of life, the children . . . those who are in the twilight of life, the elderly . . . and those who are in the shadows of life. . . the sick, the needy and the handicapped."

That is the moral mandate that Hubert Humphrey charged us with, as we come to work every morning inside this building. It is a mandate shared in state capitols and city halls across this nation. You have come here to help us do what we must to meet that mandate, to lend us your advice, your experience and your understanding — and for that we welcome you.

Given that quotation from Senator Humphrey, it's especially meaningful that we meet this year, during the 50th anniversary of Title V — the Maternal and Child Health program — and the 20th anniversary of Medicare and Medicaid.

These programs are ongoing proof of our commitment to health care. We will continue to push for reforms to make them more effective, and we will take our share of the budget cuts — but **only** our share. We will not break our commitment, our promise to the American people: That every individual will have access to quality health care, regardless of race, region, age or income.

Later today I will be joining with my colleagues, Senators Bumpers, Bentsen and Dole, in introducing legislation to commemorate the achievements of Title V, and to designate the first week in June as "National Maternal and Child Health Week."

If we can learn from our success with the Maternal and Child Health program, the chief lesson should be the importance of preventive health services. Those services can range from prenatal care to wellness programs for the elderly. It's a lesson we in Washington are learning only slowly.

Only one percent of all federal health dollars are spent on prevention. Look at our infant mortality rate. Despite the advances, it's still higher than a dozen developed nations, and the rate for Blacks and American Indians is as much as triple the national average. Look around you: Take this group here today and multiply it by 43. That's how many American kids died last year before their first birthday.

Better prenatal care could have saved a lot of those kids, and thousands more whose lives are touched by handicaps and chronic illnesses. Yet, only now are we talking about allowing states to expand their prenatal care services for poor women under the Medicaid program. Only now are we realizing that we spend up to $5,000 a day to treat a critically ill newborn in a neonatal unit, while we spend a pittance to keep a child in the best incubator of all, the mother's womb.

How much money — and how many lives — can we save if we put our investment up front, to give our kids a running chance at a healthy life **before** they're born? And how much could we improve the length of our lives and the **quality** of our lives by teaching Americans how to lead healthy lifestyles?

"Kicking the Habit"

Remarks on the Floor
of the U.S. Senate
Washington, DC
January 31, 1985

One month ago today, I kicked the habit. I put down my tobacco pipes for the last time and resolved not to smoke them again. It was not an easy decision, but for me it was a necessary one.

I am an advocate of consumer choice reform in health care. I have argued that people should be provided incentives to stay healthy and to choose among competitive health plans which assure them cost-effective and quality sick care. It is up to us as consumers to buy right in the marketplace.

However, consumer choice is more than choosing better sick care. It means first that we all take greater responsibility for our own health. Health plan buyers should be financially encouraged to reduce their risk of illness and be made to contribute more if they choose to increase their sick care consumption risk through smoking or other obviously dangerous habits.

Up until now the elderly and disabled received automatic entry into the Medicare Hospital Reimbursement Program and, by election, into a similar Medicare physician plan. But change is on the way. Choice in the purchase of a health plan is now being offered to Medicare beneficiaries. As of February, Medicare beneficiaries will have an opportunity to choose a health maintenance organization or competitive medical plan option. Through promoting choice, this significant reform will in time reduce Medicare program costs and I believe increase beneficiary access to quality services.

Personal choice about lifestyle is important. Incentives to promote self-responsibility should also be incorporated in the Medicare program. So on this, my first month's anniversary off the pipe, I thought it a particularly appropriate time to propose a package of measures for Medicare which would encourage health promotion and disease prevention for seniors.

The purpose of the package is to provide incentives for seniors, to both take it upon themselves to reduce risk of illness and lay a base for restructuring Medicare to meet its full potential as a health as well as a sickness program. Since 1965 Medicare has, appropriately, been from its establishment an acute care program. However, as research now and recent experience have graphically shown, not only can costs and lives be saved by better prevention but the risk of chronic disabilities which frequently prey on the elderly, can be reduced. It is time to explore the many ways Medicare can be restructured to incorporate the possibilities of prevention.

Medicare Part B Premiums Nonsmoking Discount

The National Center for Health Statistics reported in 1980 that 17.9 percent of men over 65 and 16.8 percent of women over 65 smoked. It has been projected that about five million seniors smoke today. Surgeon Generals since the sixties and studies too numerous to mention have indicated these smokers are at greater risk of disability and fatal illness than nonsmokers. As the noted gerontologist, Anne Somers, has argued, "The time has passed when the American taxpayer can promise full coverage of health benefits to the victims of known self-destructive behavior without asking for a contribution from them."

The private sector is already taking the lead in rewarding those who choose to avoid smoking which unquestionably increases the risk of illness. The American Council on Life Insurance reports that over 80 percent of life insurance companies now offer premium discounts to nonsmokers.

The National Association of Insurance Commissioners is also taking positive steps in this direction. The organization has adopted a resolution encouraging the health insurance industry to offer financial incentives to insureds who have healthy lifestyles. Risk factors the insurance commissioners encourage the health insurers to recognize include use of tobacco, excessive weight, and high blood pressure.

Many Blue Cross and Blue Shield plans around the country have already adopted nonsmoker discounts for their health plans. Blue plans have offered discounts for nonsmokers in California, Idaho, and Roanoke, VA.

The Blue plan in my home State of Minnesota has also just introduced a nonsmoker discount. Under the plan's program a 30- to 34-year-old nonsmoker now paying $19.69 a month for health coverage with a $500 deductible would receive a discount of $1.35, or nearly 7 percent. A 60- to 65-year-old nonsmoker would receive a discount of nearly 22 percent or $16.02 of a $74.31 monthly policy.

It is time for Medicare to move in this direction. Nonsmokers should be rewarded and smokers asked to pay more of the tab. Smokers are at greater risk for a host of chronic illnesses — cancers, respiratory ailments, and heart disease.

Under my bill, the Medicare Part B Premiums Act, S. 357, the Part B premium would be raised on January 1, 1986, to $17.60 for smokers. Nonsmokers would receive a $1 discount.

A recent article by Cindy L. Jajich and others which appeared in the Journal of the American Medical Association showed that smokers in the 65-to-74 age group from their sample, had a risk of death from coronary heart disease 52 percent higher than nonsmokers, ex-smokers. This research indicated that even ex-smokers of cigarettes, pipes, and cigars who had smoked for years, had no higher death rate than those who never smoked. Clearly, when seniors kick the habit it can make a positive contribution to their health and the health bill of the nation.

Part B Prevention Incentive Act

The current administration and some of my colleagues would like to raise the Medicare Part B premium from $75 to $100. Most private insurers now have at least a $100 deductible and many are instituting deductibles of $250 or $500 for the health plans they sell. Medicare Part B has had a $75 deductible since 1982, while program costs increased by about 25 percent. So there is a strong argument for those who want us to go to $100 for the Part B deductible. If we are going to $100, why not do it in such a way that it will do some good for the beneficiaries.

It is important that we begin to incorporate in the Medicare program incentives to promote disease prevention for seniors. This will raise the Part B deductible from $75 to $100, but, in exchange, will allow costs of certain preventive health measures incurred by beneficiaries to be counted toward satisfying the deductible.

Health measures eligible for the deductible would include health screening, to be defined by the Secretary of Health and Human Services; immunization, not otherwise covered by Medicare; and prescription drugs for the control and treatment of hypertension.

This new allowance under Part B of Medicare will provide an incentive for Medicare beneficiaries to seek preventive services. Experience has indicated those beneficiaries who take advantage of this option increase the likelihood of improving their health, reducing health costs, and lowering the risk to them of disability and death.

Health screening is particularly important for the elderly. Health screening, for example, will identify those services with high blood pressure. Seniors are particularly at risk of stroke. It is estimated that 135,000 individuals over the age of 65 die each year of stroke, yet more than half a million survive but become disabled from stroke.

Over the last 16 years death rates from stroke have declined by 45 percent. The greater part of this decrease has occurred since 1972 when the Federal Government's National Heart, Lung and Blood Institute began its National High Blood Pressure Education Program. This NIH program has been successful because it promoted identification of those at risk and high blood pressure control. It is time Medicare policy is redirected to better effort.

Medicare Demonstrations in Health Promotion and Disease Prevention

This final bill in the package instructs the Secretary of Health and Human Services to fund five demonstration projects designed to reduce the risk of disability and death of Medicare beneficiaries through the provision of preventive health services. These demonstrations would encompass an array of services including those in the previous bill as well as such items as health risk appraisals, dietary consultation, stress reductions, exercise counseling and programs, smoking cessation, sleep regulation, targeted mental health intervention, prevention of injury, instruction in self-medication, and prevention of substance abuse. These demonstrations would allow for the thorough testing of efficacy of such activities.

We know from the success of ON LOK Health Services Program that comparable measures can improve the lives of seniors eligible for institutional care and reduce the costs of expensive hospital use. These demonstrations will help determine whether or not preventive measures aimed at identifying and meeting the health concerns of the "at risk" elderly can produce the same positive results.

The demonstrations can provide direction to Congress concerning the potential usefulness of adapting preventive benefits to the Medicare Program. They can also provide important knowledge on preventive approaches to the health care providers who offer service to the elderly. It is, therefore, vital that these programs be strictly monitored and evaluated and that results be reported to Congress in a timely manner as outlined in the bill. To assure appropriate evaluation, the bill calls for oversight and evaluation of these programs by relevant experts from this nation's schools of public health.

It is my hope that these bills will encourage additional discussion among health care policymakers, professionals, and insurers concerning health promotion and disease prevention. As a nation, we need to focus more of our efforts and resources to the area of prevention, both to reduce health care costs and improve the quality of life of all Americans.

Prescription for change

> *"We in America must change the medical marketplace if we want a health care system which guarantees future generations both quality and affordability."*

5

Regulation vs. Consumer Choice:

Options in Health System Reform

While price regulation is a traditional approach to holding down costs, it's record of achievement in health care is overshadowed by the experience so far from increasing consumer choice. But, price regulation has a strong constituency among those threatened by increased competition and by some politicians who question the sensitivity of the marketplace in a service area so important to all Americans. Despite strong objections from certain quarters, however, the federal government, many states, and large numbers of employers and consumer groups are now championing increased reliance on the marketplace as the best strategy for both holding down rising health care costs and maintaining high quality.

5

"A Framework for Health System Reform"

Remarks to the
National Health Council
Washington, D.C.
September 18, 1981

It was over two years ago that I first introduced the Health Incentives Reform Act. Since that time I've learned a lot about health care in this country. I've learned which government programs work and which ones don't. I've learned about fraud and abuse. I've learned about getting the best health care in the world to the people who need it. And I've learned how much it all costs. But through it all, my faith in the principles underlying the Health Incentives Reform Act has not wavered. I started out with a strong belief in the value of choice and the strength of the private sector. Somewhere along the way the ideas were translated as "pro-competitive" and that's true — but the underlying theme remains consumer choice.

Choice gives individual consumers the opportunity to select a product or service that best meets their needs. The most successful provider of that goods or service will be the one that best responds to consumer desires — whether those desires include cost, quality, appearance, or other factors. As I'm sure you know, these very basic elements of a competitive market do not exist in health care. The ultimate consumer of health services, the patient, is usually insulated from the cost of care by a private or government insurance plan. Furthermore, when patients **do** share in the cost of their health care, they find there's nothing to shop around for — in other words, no choices. How many employees have a choice of health plans? How many Medicare beneficiaries do? Not many. And without consumer choice to stimulate providers to be responsive and efficient, we really can't expect doctors and hospitals to change their behavior. More regulation won't cure the ills of our health system. But neither will the status quo. We must introduce the basic elements of choice and competition into health care.

In the course of thinking about these issues I've come to realize that achieving a better health system entails much more than simply enacting a so-called pro-competitive bill. No single bill can include **all** the elements needed to make our health system more competitive. The reason we have market failure in health care cannot be attributed to any single piece of legislation in the past. The course to our present state of affairs has been incremental, and likewise our movement toward greater competition will have to be incremental. That doesn't mean that our action will be limited or slow in coming. It only means that we will act broadly and persistently.

An incremental approach requires that a competitive framework be established which can be used to formulate positions on the entire range of health issues. It's very easy for health policymakers to view issues in isolation and forget the contribution each one makes to the whole. You can't expect a business to produce a good product if each division sets its own agenda. There has to be coordination and an overall corporate strategy. Improving the health system is no different. It needs an overall framework and game-plan.

Eight Guiding Principles for Change

I've thought a lot about a framework for health, and I'd like to share with you today the guiding principles I've been developing. Most of these principles apply to other issue areas in addition to health, and are representative of my general philosophy on the role of government in society.

1. Choices are good. Government policy should expand choices to the individual, not limit them.

Monopolies in service provision, whether public or private in nature, should be avoided. Citizens benefit from choice, whether it's in the form of competition with Ma Bell for long distance rates or in the alternatives to the U.S. Postal Service for package delivery. Government has done a reasonably good job of extending health care choices to its employees through the Federal Employees Health Benefits Plan. Similar choices should be extended to Medicare beneficiaries and veterans.

2. **The government is generally a better purchaser of services than provider of them.**

Government does not allocate resources as well as private markets and should directly provide services only when a private alternative is unavailable. In cities like New York, private bus lines are able to make a profit on runs the transit commission consistently **loses** money on, despite charging the same fare. Another example is in the area of municipal garbage collection. Those communities like Newark, Kansas City, and Minneapolis, that contract out for refuse collection, are able to save millions of dollars compared to communities that directly provide the service.

A further extension of this principle is that, if possible, government payments should go through the beneficiary rather than directly to the provider.

As an example, consider the G.I. Bill. Veterans were given the choice of going to whichever institution they wanted to receive their education, certainly a preferable alternative to building exclusive Veterans Colleges to handle all veteran education. In the area of subsidized housing, special projects conducted by HUD in Green Bay and South Bend have demonstrated that housing allowances — a form of voucher — give beneficiaries a range of choices that made them happier and the market more responsive. The same approach should be used with Medicare and Medicaid.

3. **Consumer choice is enhanced as information increases. Government policy should facilitate the flow of information.**

Individuals cannot be expected to make sound choices if they are provided with insufficient or inaccurate information. Furthermore, information must be presented in a straightforward and comparable manner. Individuals should not have to compare apples with oranges. Consider the value and popularity of a publication like ***Consumer Reports.*** It helps us compare products on the basis of cost and quality. On the other hand, look at the information the government provides federal employees under the FEHBP — there seems to be plenty of information there, but at least for me it's very difficult to make heads or tails out of. Information must be provided in a usable form.

4. **The price of goods or service should be a true measure of its cost. Government policy should not facilitate hidden costs or cross-subsidizations.**

A good example is the subsidy our government provides for tobacco. It's bad enough that the government gets in there and mucks up all the price signals that would otherwise be shaping the market — but then to have the stuff so unhealthy on top of that. It just doesn't make sense. In the health area, Medicare cost allocation formulas often force hospitals to shift legitimate expenses to private paying patients. Such cost-shifting doesn't save the system any money, but it does distort the price signals buyers perceive. Consumers should get what they pay for and pay for what they get.

5. **The government should guarantee access to necessary care. However, standards of access cannot be open-ended and must be realistic.**

Not every town has a Bloomingdale's or a hospital or an orthopedic surgeon, but access to these facilities and services is usually reasonable. In the medical area, **geographical access** is only one issue; there's also **economic access.** We provide medical services to those who can't afford them. But consider the diffficult issue we face as medical technology offers us expensive new treatments for disease. True, the treatment may be better, but is it worth 10 times the cost? We simply cannot afford a health system which sets standards solely on the basis of available technology with no regard for price. Setting standards for access is a thorny but unavoidable government responsibility.

6. **A responsive market will have fluctuations in capacity. Temporary shifts and increases in capacity are to be expected as the market adjusts.**

Shifting buyer preference causes some producers to increase output while others decrease theirs. Consumer preference for fuel-efficient cars left our American auto manufacturers with too many large cars and too much capacity to produce them. Even though they are rapidly downsizing their models, they still have more capacity than they need for producing large automobiles. But that's not bad; it's just part of the process, and government shouldn't be tempted to meddle with it. In the health area, that means getting away from certificate-of-need.

7. **The government should establish guidelines for quality, but recognize that quality will ultimately be judged by the individual.**

Consumer protection often takes the form of government regulating the producer and setting standards for quality. For years the government has tried to regulate standards for mileage and crash restraints in automobiles. The government has also tried to control the use of artificial sweeteners, even though diabetics might choose to accept the risk of cancer to decrease their sugar intake. A more appropriate role for government is to establish guidelines and, as mentioned earlier, provide adequate information to the individual making the choice.

8. **The government's role in stimulating competition should be to assure fair market conditions, not regulate its particular brand of competition.**

We each have a slightly different definition of competition. What's important is not that we install one particular model, but that we create the conditions that will allow the market to diversify and shape its own future.

That's it. If I get up to ten, maybe we can call them the Commandments. For now, I guess they're just the Beatitudes.

As an example of how they might be used, take health planning. The concept is a good one. When it comes to a community's health system, citizens should have some input. But the regulatory authority we've given planning agencies is dangerous and uncalled for. To a planner, excess capacity is the bane of our health system. To a believer in the market and my sixth principle, excess capacity is a part of change and innovation. As I see it, the elimination of all excess hospital beds in a community would significantly reduce the pressures for change within the hospital industry. Franchising may be okay for McDonalds or Wendy's, but it's not okay for the government. We should neither franchise peanut growing nor health care, and HSAs should not have the certificate-of-need authority they now enjoy.

I know you are interested in the more talked about pro-competitive provisions. I tend to think in terms of public buyers and private buyers. As **the** major purchaser of health care, government certainly has a responsibility to shape up its own act. Consequently, I have been very interested in proposals which would extend voucher-type options to Medicare and Medicaid beneficiaries. The proposals range from fairly limited ones, like Senator Heinz' bill to capitate HMOs under Medicare, to broader voucher schemes in the mold of Alain Enthoven's ideas.

I recognize both the technical difficulties and unknowns associated with a shift to capitated payments, but I believe we must pursue it now. From the standpoint of the budget process, capitated government contributions would make Medicare spending predictable and precise. From the standpoint of the beneficiary, there would be choices; choices which would allow the individual to best match his or her health needs with a qualified health plan. It all fits with my guiding principles, especially the first two. I expect the scope and details of a capitation plan for Medicare and Medicaid to be developed by my staff and the administration over the next several months. The Senate Finance Committee should be in a position to hold hearings and mark up a bill by early next year.

I'd be less than candid if I said I expected smooth sailing for these provisions. There is tremendous inertia in current federal policy. Government is accustomed to what we have, and so is the private sector. As a public buyer, government **must** change its position by directing its dollars through the beneficiary, offering choices, and returning coverage to the private sector. As private buyers, businesses **must** assure that fair market conditions exist for their employees. The marketplace **can** work if we **all** work to make it happen.

"What's Wrong with Regulation"

Remarks to the
Governors Conference on
Alternative Health Delivery Systems
Middleton, Pennsylvania
April 30, 1984

A recent survey by the American Association of Retired Persons showed that four out of five Americans over 25 years of age favor solving Medicare financing problems by limiting payments to doctors and hospitals. Congress already has responded to that sentiment: Nearly three-fourths of the $20 billion in Medicare cuts enacted in the last three years have been targeted at doctors, hospitals and other health care providers.

Some politicians want to go farther. Walter Mondale, Ted Kennedy and Dick Gephardt, among others, are advocating hospital payment limits that apply not just to Medicare, but across-the-board.

Regulation is an attractive solution, because it is quick and, at least temporarily, effective. There is another, unspoken reason for the attraction of regulation. The same politicians who last year saved Social Security by raising taxes on workers and employers and reducing benefits for a handful are not anxious to bail out Medicare with higher taxes or lower benefits.

With the choice of higher taxes or lower benefits, it's no wonder politicians turn to regulating prices. But consider this: Even if hospital rates were controlled nationally, the most optimistic estimate is that we could reduce Medicare cost increases by only **two percent.**

Is the two percent savings from hospital cost control the kind of major reform that will save Medicare? Hardly. Instead of going into the red in 1990, the trust fund would stay afloat until 1992. For all that regulation and bureaucracy, we buy ourselves two years. And those two years are purchased at a terrible price for older Americans. It is the price we pay in time lost in reforming the system while reform is still affordable.

A major force driving health care costs higher, is the remarkable improvement in treatments. By some accounts, up to 50 percent of hospital cost increases can be attributed to new technology and improvements in treatment. Twenty-five years ago, we didn't have dialysis for patients with chronic kidney disease. It's only in the past 15 years that artificial hips have been widely available. And until Barney Clark, artificial organs were only a dream.

Who would advocate that our health care system stop providing those services? Yet, they are expensive. The cost of kidney dialysis, for example, was about $130 per treatment in 1983. With Medicare picking up the tab for 73,000 patients, that's a total cost of over $2 billion for the year.

If hospitals are forced by government regulation to function with less money, they can only survive in one of two ways. Either they can become more efficient, or they can cut back on the quality or range of services offered to Medicare patients. In other words, they can ration care.

Fortunately, only a few states have regulated their hospitals. But they have given us a model of what is likely to happen in a government-controlled environment.

In New Jersey, which has what is probably the best known hospital rate-setting program in the country, hospital costs per capita went up 14.5 percent in 1982. Over the same period, hospital costs per capita rose only 7.4 percent in Minnesota — the smallest increase in the country. Minnesota, for those of you not familiar with it, has one of the most price-competitive hospital markets in the country. It has chosen efficiency — not rationing.

If you doubt the inviting nature of these options, then look at a recent study, which concluded that there was no improvement in hospital efficiency when states adopted rate-setting. That means that although hospitals were paid less in order to achieve savings, the hospitals didn't respond by becoming more efficient.

Hospitals must look elsewhere for the savings forced on them by government controls. In order to live within its regulated rates, a hospital may choose to stop liver transplants, heart pacemakers, artificial hips or other vital operations. The Medicare patient is denied a service that might be available to a wealthy person or someone with private insurance.

Few Choices and No Incentives

The real culprit in health care inflation is a system that offers the consumer few choices and almost no incentives to hold down costs. And we, in this room, are responsible for creating the golden handcuffs of tax-free fringe benefits, and particularly for creating a health insurance system which is no longer insurance, but simply free access to the medical marketplace. We have to change the medical marketplace if we want a health care system that guarantees both quality and affordability. We, in this room, have that opportunity.

So, regulation won't change the marketplace. Politicians have finally recognized that fact of life in transportation, communications and other industries. Regulation was artifically propping up prices, and franchising inefficient service providers, and cross-subsidizing high-cost services and holding down consumer options by denying consumers choice. Bit by bit, a few policymakers are coming around to see that the same holds true for health care.

It isn't as if we haven't tried health sector regulation before. At the urging of the Federal Health Planning Act, most states set up regulatory agencies in the '70s to review the need for new hospital construction. This so-called certificate-of-need process was designed to control hospital capacity and, thereby, contain costs.

The certificate-of-need process turned into an entry barrier, which should have been no surprise. The airline and trucking industries were protected from competition by the same mechanism. From 1938 to 1976, for example, the Civil Aeronautics Board did not certify a single new trunk air carrier.

Hospital industry opposition to certificate-of-need was solid when the health planning legislation was initially considered. Now, the industry is fragmenting. Hospitals that feel threatened by the emerging competitive marketplace are embracing certificate-of-need as a necessary component of control for our health care system. For them, certificate-of-need serves as a franchising authority. And they use the poor, medical education, and high-tech health care to argue for treating hospitals as public utilities.

Prospective Payment: A First Step

Congress is starting to build more incentives into our health care system. Last year, the President signed legislation I authored to pay hospitals under Medicare on the basis of preset prices — called DRGs. For the first time, hospitals that are efficient will be rewarded for it, and those that aren't, will be penalized. This new system is having dramatic effects. I hear about it when I visit Utah, California, Arizona, New Mexico, and Ohio. I hear about how hospitals and physicians are working together to reduce length-of-stay and eliminate unnecessary tests.

Prospective payment has had a major impact, no question about it. But, in a sense, it, too, is government regulation; and this is especially true if all third-party payers use the same prospective payment system. But the really good news is that Congress has given us a vision of the future beyond DRGs when it passed another provision with even more far-reaching implications. As part of the 1982 tax bill, Congress included a provision that will allow Medicare beneficiaries to use their entitlement to purchase private health insurance.

With this so-called voluntary voucher a private health plan that offers better benefits than Medicare at a competitive price will be the preferred choice of Medicare beneficiaries. That's exactly what's happening in Minnesota, where the option has been available for two years. Over 30,000 Minneapolis-St. Paul senior citizens have opted out of traditional Medicare and enrolled in private health plans. Senior citizens are directing their business to the private health plans that best meet their needs — those plans that negotiate the best hospital rates and provide the best benefits. In Minnesota, the marketplace is doing the job. But only because there is a competitive health plan market in which no consumer misses the advertised competition between the fee-for-service plans, the prepaid plans like HMOs, and the Preferred Provider Options.

Some state governments are also looking to the marketplace. In California, Medicaid contracts for hospital care are based on price. In Arizona, Medicaid contracts are awarded through competitive bidding. Other states, like Minnesota, are looking at voucher approaches for Medicaid.

It is here — in providing incentives for employee choices — that employers can show us all the way. How are some of you in the private sector responding? Employers are developing low-option plans, with increased coinsurance and deductibles. They're organizing Preferred Provider Organizations, in which hospitals and physicians who provide quality care at a discounted price are given more business. And they're organizing and offering Health Maintenance Organizations. HMO enrollment has doubled in the past five years and, by 1994, will total 50 million people.

The actions of private employers and federal and state governments have sent shock waves through the health community. Buyers are paying attention to price, and the old ground rules are being turned upside down.

"A Case for Consumer Choice"

Remarks to the
Business Council
at the Homestead
Hot Springs, Virginia
May 11, 1984

For years, medical care has operated on a cost plus basis. Wouldn't you love that? Tell us what it costs, and we'll pay the price, any price. That's the way trucking and airlines worked for years.

I never had to make a major move until I was elected to the United States Senate. Then I had to pay my own bills to move to Washington, D.C. And I discovered it didn't make any difference which moving company I used. They all charge $4,800.

I said, "Wait a minute. Does it really cost the same for all of you? Isn't one better than another? Doesn't one work harder than the other? Won't one get there a day quicker?" My dollars couldn't make these things happen.

So what did we do? We deregulated airlines, trucking, and communications. What we thought were $100,000 a year pilots, we now buy for $35,000.

And now we're facing a $350 billion health industry out of control, an industry that has not yet been put under the yoke of price regulation, but neither has it exhibited much price competition. How do you make competition work? You get buyers to pay attention to price. When it comes to buyers, there are two biggies. Medicare — the elderly — is one. And you people — your employees — are the other.

A Strong Consumer Role

It's easy to say we should pay greater attention to price. But what does that mean? Does it mean every company should start negotiating with hospitals and physicians over the price of a tonsillectomy? I can see it now. You'll be sitting on one side of the table, while your company makes its case; then you'll get up, put on your hospital trustee hat, and move to the other side of the table, while the hospital makes its own case.

That's not the way to go. You and I aren't experts at negotiating with hospitals and doctors. But there are experts out there, experts we can use. They are the insurance companies, the Health Maintenance Organizations, the Preferred Provider Organizations, and the other entities that package and broker health plans. And we can deal with them in one of two ways.

Either **we** can shop around and direct our business to the insurance plan that best meets our needs, or we can let our **employees and beneficiaries** direct their business to the health plan that best meets their needs by leveraging affordable prices and quality service out of health providers.

I strongly prefer the second approach. That's what we've done for 25 years with federal employees. As a federal worker, I get $113 a month and a list of 20 health plans to choose from. If I want high option Blue Cross, I fork out an additional $140 a month for family coverage. If I choose Aetna low option, I pay $33 a month. If I want an HMO, I pay $87. That's the way to make price competition work. Give each employee a choice of health plans, and give them a stake — a financial stake — in their choice.

I was down in Florida recently speaking to the Associated Industries of Florida about health care. One of the speakers flashed up a slide that said, "Leadership, not legislation."

Now, I tell you, that's the understatement of the century. Leadership, not legislation. Why do people get elected to politics? To legislate. You promise something, you get elected, you legislate, you come back and you say you did it, and that's the way people get reelected. That's the way this country has lived for the last 25 or 30 years.

The future of our health care system depends on leadership, not legislation. And that means the action should come from you and me, not me. I'll do my job by turning Medicare back to the private marketplace. But don't ask me to regulate your health costs away. Other politicians are jumping at the chance.

New Jersey, New York, Massachusetts, Wisconsin, and West Virginia have already succumbed to price regulation. Arizona, Pennsylvania, and Florida are on the edge. What's surprising is that in some cases, it's you people who are leading the charge. Business has taken the lead in promoting hospital price regulation in Arizona. Sperry, Barrett, and Motorola are leading the charge. Let me ask you, have you really decided to permanently commit 10½ percent of GNP to sick care? To doctors and hospitals?

Only when the public understands the problem can their political representatives confront those problems with solutions that vary from their past. When Colorado Governor Dick Lamm spoke on the costly problems created by our refusal to allow death, he wasn't suggesting a national policy of euthanasia. He was reminding us that we, as individuals, as a community, and as a nation, can only make choices if we are informed and have some personal stake in the alternatives.

Of the ten leading causes of death in America, six are dietary related — cancer, heart disease, stroke, high blood pressure, diabetes and obesity. Twenty percent of the total estimated costs of medical care are related to alcohol and tobacco consumption. Each week, 66,000 people are hospitalized due to automobile accidents, and two million people suffer severe burns each year, half of them children, and most occurred in the home. In the workplace, drugs and alcohol are the highest contributors to absenteeism and accidents on the job. But where are the incentives to change the behavior of 232 million Americans?

I have not tried to debunk regulation but, rather, to sell competition and consumer choice. Only by giving Americans a greater personal stake will we realize the health solutions we are all seeking.

"A Price Sensitive Health Care System"

Remarks to the
Assocation of Private Pension & Welfare Plans
Washington, DC
May 1, 1984

The real culprit in health care inflation is a system that offers the consumer few choices and almost no incentives to hold down costs. And we in this room are responsible for creating the golden handcuffs of tax-free fringe benefits and, particularly, in creating a health insurance system which is no longer insurance, but simply free access to the medical marketplace. We have to change the medical marketplace if we want a health care system that guarantees both quality and affordability. We in this room have that opportunity.

But there are problems when you move to a price-sensitive market and look to economic deregulation for examples. When we deregulated trucking and air, we found it costs less to fly competitive long-distance routes than intercity flights within our states. That's because we were subsidizing this low-demand service with fixed prices for all carriers on the long-distance hauls. The same has been true for phone service and many other services which are being released from the bonds of regulation.

And the health marketplace is no different. For years, we have been able to use a relatively price-insensitive hospital market dominated by third-party payers to subsidize services like care for the economically disadvantaged. Hospitals that provided this care were able to build the costs into their private room rates.

But as the health care marketplace becomes more and more price-sensitive, it will become increasingly difficult for these hospitals to provide care for the indigent by simply boosting the price charged to private patients. Price-sensitive health plans and patients will just take their business elsewhere.

Indigent care is not the only problem. Medical education is another service that has been financed by charging the patients in teaching hospitals higher rates. This practice will also become less available as price-sensitivity increases.

These are problems that must be addressed and solved. And that's exactly what I intend to do. I'm holding a series of hearings on medical care for the disadvantaged and medical education. I predict that the future of eight medical schools in a state like Pennsylvania is in some doubt. But we must have medical education. We will find a solution. And we will find solutions for capital costs, for transplants, and for the life-death issues raised by Governor Dick Lamm. But we won't find the solutions if we turn to regulation. Costs of services must be explicit, or a public consensus on the solution cannot be achieved. And without a public consensus, the politicians' solutions cannot become society's.

There's another cross-subsidy in the current system that we are beginning to deal with. And Dr. Muller can tell you it's the issue of lifestyle. We are gradually changing the incentives for our personal health habits. Dr. Barney Clark was able to smoke two and a half packages of cigarettes each day for 25 years, and his widow was rewarded with $200,000 from a nearly bankrupt Medicare trust fund for the six-month artificial heart experiment which prolonged his life. An emphysema victim was recently awarded a tax deduction by the U.S. Tax Court for the installation of a $40,000 swimming pool in his home to help him offset the effects of a life of smoking which brought him emphysema. And you and I paid that bill in higher taxes on us.

I don't want to leave you with the notion that government is going to solve your health care cost problem. Don't count on it. We're turning to choice and private sector competition, and so should you.

Prescription for change

> *"Achieving the benefits of a health care marketplace takes hard work, particularly on the part of consumers who must consider choices and direct their business to the physicians and hospitals who best meet their needs."*

6

Consumers and Providers:

Two Groups on the Cutting Edge of Change

Health care providers in America are in the midst of a revolution. Physicians, hospitals, and other providers are having to react quickly to a changing set of incentives and increased competition. But, where there is change, there is also opportunity. And, by and large, health care providers are responding to their new environment with the same skill and compassion which has always characterized the delivery of health services in this country. Consumers, too, are faced with a new and growing responsibility to make choices in today's competitive health care system. In many cases, consumers are being offered a choice of competing health plans. And, as health system reform continues, all consumers will be given greater incentives and rewards to stay well, prevent accidents, and generally avoid the "sick care system," altogether.

6

"Hospitals in the Midst Of Revolution"

Remarks to the
American Protestant Hospital Association
Washington, D.C.
June 21, 1984

American hospitals are in the midst of a revolution. It is a revolution fueled by keen attention to price. And it is spreading quickly.

Just listen to a few of the articles reported in recent issues of **Business Week:** "Medicare Squeeze Pushes Hospitals Into the Information Age," "How Two Hospital Suppliers Are Fairing in a Penny-pinching Era," "Home-Care Stocks are Looking Healthier," and this week a report on the nurses strike in Minneapolis and St. Paul.

This new attention to price is forcing hospitals into new ventures with an emphasis on the efficient and cost-effective delivery of service. It is forcing hospitals to take a good hard look at their management strategies and their staffing needs. And, with labor accounting for 60 percent of hospital costs, the nurses' strike in my home state of Minnesota may be a picture of what is yet to come for many hospitals across the country.

Although there has been a lot of activity in the health care industry over the last few years, the remainder of 1984 will be a time of relative inaction on the part of Congress. In some respects, that's a blessing. The major health reforms we've enacted in the past several years need time to be implemented and it doesn't hurt to concentrate our resources on assuring that DRGs and vouchers work well.

However, a lot remains to be done. I expect that as soon as we get the election behind us, Congress will aggressively pursue reform in areas of care for the indigent, medical education, capital costs, and the expansion of prospective payment to include physicians and other health care providers.

Medicare in an Election Year

Just because this is an election year, however, does not mean Medicare will be forgotten. Medicare will be an important topic this year for three reasons.

First, there's the deficit. Republicans and Democrats alike turn to Medicare for spending cuts. And it's not surprising, given the fact that the Medicare budget doubles every five years. In the deficit reduction package that the Finance Committee recently sent to the Senate floor, over 50 percent of the spending reductions — or $5.7 billion — come from the Medicare program. Medicare will continue to catch the attention of the budget-cutter's eye in the coming years. You can count on it.

Second, the Medicare Trust Fund is going broke. The Medicare actuaries estimate that, by 1990, the Trust Fund will be on the brink of bankruptcy. Incremental reforms in Medicare may postpone the day of reckoning, but it will come. Senior citizens groups, health providers, and the Advisory Council on Social Security have already focused attention on bailing out the Trust Fund.

Third, it's an election year, and Medicare is very dear to the hearts of a good many voters. Consequently, you can expect the demagoguery and the finger-pointing to increase. Eighty percent of Americans believe the best way to contain health care costs is to limit what hospitals and physicians are paid. Politicians will respond by blaming you for a problem we're all responsible for. Rep. Claude Pepper has already sent a letter out to senior citizens, explaining that the Reagan administration's Medicare proposals "attack the principal victims of rising health costs, not the causes." It almost sounds like a line **you** could use.

As you can see, we'll have our hands full just keeping the wolves at bay.

These, then, are the reasons Medicare will be talked about. But they aren't the really big news in Medicare. The big news is the reforms that have been enacted in the past two years. One of them you are well aware of. That's prospective payment, or DRGs. DRGs are the single biggest change in health care financing since Medicare was enacted in 1965. And because Medicare is the single largest buyer of hospital care, DRGs get a lot of credit — or blame, depending on how you look at it — for turning the hospital industry on its ear.

For the first time, hospitals which are efficient are being rewarded for it, and those that aren't are being penalized. This new system is having dramatic effects.

There was a story about it on the front page of the **Wall Street Journal** recently. Comparing the quarter ending January 1984 with the quarter ending January 1983, the growth in the hospital market basket declined from 7.4 percent to 4.6 percent. And hospital admissions went from an annual growth of 2.4 percent to an annual decline of 3.2 percent. The length of hospital stay for those under age 65 declined by 1.7 percent and for those over age 65, the length of stay declined 4.4 percent. So, we are beginning to see some positive effects.

DRG's Have Their Own Weaknesses

DRG's are an important reform, no question about it. But they are not the be-all and end-all. In fact, they are only a glamorized form of price regulation that gives hospitals somewhat better incentives for efficiency than the old cost-based reimbursement system. But like any form of price regulation, DRGs have problems.

First, in order for a DRG system to work, we must have reliable predictors of resource use. DRGs do a reasonably good job, but they are not perfect. Within some DRGs there is wide variation in case complexity and associated case cost.

When the DRG system was set up, we knew that it was imperfect. In order to make some rough adjustments for case complexity, we established separate rates for urban and rural hospitals, and we made an additional payment to those hospitals with teaching programs. We knew that, as a general rule, urban teaching hospitals are going to have a more complex mix of patients than rural hospitals.

Of course, the urban/rural and indirect medical education adjustments have generated some criticism. They are arbitrary distinctions and they invariably end up unfairly penalizing some hospitals.

The best solution is to develop a complexity index that better predicts resource use. That way, the urban/rural distinction and the indirect medical education adjustment could be eliminated entirely. Unfortunately, a good complexity index is several years in the making.

So that's problem number one: Imprecise predictors leading to arbitrary definitions and distinctions. It's a sure-fire way to generate political controversy and political action.

The second major problem with DRGs has to do with admissions. Everyone agrees that DRGs provide you and your physicians with powerful incentives to manage a patient's stay efficiently. You will negotiate lower prices from your suppliers, you will eliminate unnecessary testing, and you will enhance your discharge planning effort to assure that patients are discharged as quickly as possible to a less intensive setting. However, DRGs do nothing to discourage inappropriate admissions. In fact, the financial incentives **reward** admissions.

The more hysterectomies or prostatectomies surgeons performed, the more money a hospital received. In giving providers an incentive to examine per-case efficiency under DRGs, we overlook the fundamental issue in practice pattern variation and cost-containment — namely, hospital admission rates.

The Role of Peer Review Organizations

So what does a price-regulatory environment do to respond to this concern? It establishes a policing mechanism to review it. In this case, our policing mechanism is called the Peer Review Organization (PRO) program, and it happens to be a program I authored.

The Health Care Financing Administration has already indicated that it expects PROs to examine practice pattern differences. When specific physicians are admitting too often, PROs are expected to take action to reduce those admissions. Also, if area admission rates for particular DRGs exceed the national average, PROs are expected to identify and correct the problem.

PROs are bound to be controversial. It would be much easier if we had a system that naturally discouraged inappropriate admissions.

Finally, there is what I consider to be the biggest problem with price regulatory solutions like DRGs: Their inflexibility. Under Medicare law, hospitals are not permitted to charge patients above and beyond what Medicare pays. Physicians have that privilege under Part B, and their ability to continue that practice is repeatedly debated by the Congress. But hospitals are not permitted that option. They are forced to accept assignment.

It doesn't take too much foresight to see what the potential impact of this policy is. To illustrate, let me turn to the example of pacemakers.

Pacemakers have received a lot of attention in Washington these days, much of it unwarranted. But pacemakers provide a good example for what can happen under a price-regulated system.

As you know, the DRG payments are based on 1981 data. Since 1981, however, a new generation of pacemakers has appeared on the market. This new generation of pacemakers promises to improve quality of life, but it also promises to cost $1,000 more. Hospitals face a dilemma.

If they put in the new pacemakers at the present DRG price levels, they lose money. They can't ask the patient to pick up the extra expense, because Medicare prohibits them from doing so.

Hospitals may choose to implant the new pacemakers in some patients, but only if they can make up the cost somehwere else. Simply put, hospitals are being placed in a position where they are forced to consider rationing care. They may decide not to let any Medicare patient have the new technology, or they may decide to implant the new technology in only certain cases but, plain and simple, it's rationed care. And it's likely to happen more frequently rather than less frequently.

The bottomline is that price regulation forces implicit rationing. If we're going to ration care, we should not hide it under the bushelbasket of cost containment.

We should be up front and frank about the cost of medical services, and whether we as a society are going to pay for them. But we should not bury them in the cost-containment debate.

DRGs: A Step Toward Vouchers

It's because of these problems that I view DRGs as only an interim step. I believe that ultimately the Medicare system will evolve into a voucher system. Now I know vouchers scare a lot of people. They scare senior citizens, they scare physicians, and they scare hospital administrators. But they are really a very simple and straightforward approach to dealing with Medicare's problems.

What we're really saying is that we should treat federal beneficiaries — like senior citizens — the same way we treat federal employees. We should offer them a choice of health plans, and we should contribute a certain dollar amount each month to whatever health plan an individual chooses. This kind of approach has several obvious advantages.

First, it gives us predictability. If we know how much we're spending each month per beneficiary, it's easy for the federal government to budget spending.

Second, it gets the government out of the insurance business. Medicare makes a lousy insurer. We're better off leaving decisions about coverage, capital payments, medical education, and physician payment to the private sector, where political interests do not interfere with business decisions.

And, finally, a voucher offers flexibility. If health plans can prove to patients that their product is worth the price, fine . . . they can charge patients more. If patients aren't willing to pay that premium, however, the health plan will not succeed. It's that simple. New technology, new treatments, new tests, these can all be assessed and assimilated by private, competing health plans.

Voluntary vouchers are already a reality in Minnesota, where the

Medicare voucher option has been available for several years. Over 35,000 Minneapolis/St. Paul senior citizens have opted out of traditional Medicare and enrolled in private health plans. Senior citizens are directing their business to the private health plans that best meet their needs — those plans that negotiate the best hospital rates and provide the best benefits.

Price competition is the name of the game. If you aren't price- competitive, HMOs and other private health plans simply won't send their patients to you. The growth of Health Maintenance Organizations and Preferred Provider Organizations, together with the expansion of Medicare vouchers and employer multiple choice portends greater attention to price on the part of buyers of your services.

Price Competition Will Be Critical

In order to be successful in this new era of price competition, you're going to have to price your services to be competitive. That means that for the more routine services you will have to compete with community hospitals. And you will have to eliminate the cross subsidies that presently exist in your institution. You will no longer be so free to add the cost of teaching, the cost of indigent care, or the cost of high technology into the price you charge for taking care of a patient with pneumonia.

These are the problems that must be addressed and solved. And that's exactly what I intend to do. I'm holding a series of hearings on medical care for the disadvantaged and medical education. And the solution won't be regulation. You can bet on that.

As for medical education, I have already asked my staff to develop a proposal for establishing a medical education block grant. Money would be allocated to the states based on the number of filled intern and residency positions at hospitals in each state. States would be required to match the federal grant at a very modest level — perhaps 10 or 15 percent.

States would be required to pass on the lion's share of the money directly to hospitals based on the number of training positions they have. Although the details of this approach are still being worked out, the principle is an important one: Identify medical education costs and pay for them separate from patient care. It's the only way you will maintain a position in the price-competitive hospital market.

The challenges ahead of us are massive. But they are not insurmountable. The opportunities of the marketplace — for improving efficiency, for enhancing quality, and for keeping medicine in the private sector — oblige us to tackle them all.

"The Provider's Stake in Health System Reform"

Remarks to the Hospital Council of the National Capital Area, Washington, D.C., March 29, 1984

The new Medicare Prospective Payment System is only in the sixth month of a three-year phase-in, but the effects are already dramatic. In the last four months, I have visited with hospitals in Utah, California, Arizona, New Mexico, Florida, and Minnesota, and they all agree: DRGs are stimulating greater efficiency. Hospital administrators are beginning to behave like businessmen and women. They're beginning to think about product management. And they're all developing software systems to track physician behavior.

DRGs are also helping to blur the distinction between **insuring** health care and **delivering** it.

Under DRGs, hospitals are at-risk. Hospitals are also at risk in rapidly growing HMOs and PPOs. But at the same time hospitals are getting into the risk business, insurers are getting into the delivery business. Insurance companies are establishing their own HMOs and PPOs, and are developing joint ventures with hospitals and physicians. Pretty soon the distinction between insuring care and providing it will be lost altogether.

The new Prospective Payment System will obviously facilitate vertical integration. Some hospitals are already developing contractual arrangements with nursing homes to assure that their patients can be discharged into a skilled nursing bed as quickly as possible. Hospitals are also gearing up home health services to make sure that patients can be rehabilitated at home instead of in an expensive hospital bed.

To reward and further stimulate this development, we need to broaden the hospital DRG to include payment for other forms of care. We should start by expanding the hospital DRG to include payment for skilled nursing facility care. That way, each hospital will be responsible for directly providing or contracting for skilled nursing care. Decisions about when such care is appropriate and what price should be paid for it will be left to hospitals and their physicians.

We shouldn't stop there. Hospital DRGs should be further expanded to include payment for home health care, hospice care, and physician care. I believe a single DRG payment will ultimately cover an entire spell-of-illness, from the time a patient enters a hospital to the time a patient is rehabilitated in the home. This single payment will cover all services, and will give hospitals and physicians a strong incentive to manage total patient care.

Separate prospective payment systems for separate providers does nothing to control overall utilization in the system. Only a single comprehensive payment insures that sūbstitution of services takes place at the right time and at the right price. As far as I'm concerned, it's the only kind of prospective payment system that makes sense.

I should point out that I am not wedded to paying this spell-of-illness DRG to the hospital. After all, it's physicians who manage patient care. If physicians are willing to step forward and receive the consolidated payment, fine. They can then develop contractual arrangements with hospitals, home health agencies, nursing homes, and other providers. And, they will be at risk for the financial consequences of their decisions. Physicians will, then, be in a position to manage both the services and their financing.

If, however, physicians are not willing to accept the payment, it should be made to the hospital. And in practice, I imagine this is the course most physicians would prefer. Most physicians want to practice medicine, not manage a business. I expect most physicians will allow hospitals to take the payment and contract with physicians for their services. The physician option, however, will keep the negotiations honest.

Managing Total Patient Care

Already we're seeing that prospective payment is encouraging providers to work together in managing total patient care. A consolidated DRG will accelerate that development. As providers become more comfortable working with one another in providing services and containing costs, participation in Medicare's voluntary voucher will become more and more attractive. And that, I believe, is the Medicare system we should strive for. Vouchers should be the centerpiece of health care reform, not DRGs. Prospective payment through DRGs is only the first step toward this ultimate goal.

One of the current shortcomings of the voluntary voucher, of course, is that there aren't enough private health plans that qualify for participation. The definition of a competitive medical plan limits participation to plans like HMOs. Ove~~r time, h~~owever, I expect the definition of participating plans to be broadened. For now, the limited definition serves to both phase-in the program and to reward those kinds of plans we know stimulate price competition. As the market develops, participation will be broadened.

I expect that the DRG system will greatly stimulate the development of competitive medical plans. Already we're seeing remarkable interest in PPOs. I expect that in the next several years, we'll see new kinds of health plans develop, all in response to the increasing price competition. And I fully expect that by the time Congress is ready to undertake a serious national debate about the bankruptcy of Medicare, a solution based on vouchers will be far more acceptable and attractive.

Beneficiaries will like the choice. Providers will prefer the market. And federal expenditures will be far more predictable and controllable.

In other words, although capitation or a Medicare voucher may not appear to be a very viable solution to Medicare's woes at this time, I believe it will become much more attractive as time goes on. And I believe we have enough time to show that the marketplace can work.

Support for Consumer Choice Isn't Unanimous

Despite all the attention given to consumer choice and price competition, the support for it is by no means unanimous.

In January, I went to Arizona to talk with health providers, business leaders, and Governor Babbitt about health care. Four major corporations in Arizona — Sperry, Motorola, Garrett, and Honeywell — were in the process of collecting signatures to put an initiative on the ballot this November.

Their aim is to use the voters to force the state to regulate hospital prices. They think the best way to control their company's health care costs is to strictly regulate where hospitals can build and what they can charge. Joe Campanella, President of Sperry Flight Systems, tried to explain the position of business by saying, "All regulation isn't bad regulation." In some cases, I may agree. But not when it comes to price regulation.

State governments are not exactly marching in step either. Some states, like California, Arizona, and Minnesota, are pursuing competitive strategies — based on competitive bidding and vouchers. But others, like Maryland, New Jersey, and New York, have already adopted rate-setting approaches. And states like Florida and Pennsylvania are considering it.

Even the hospital industry is fragmenting. Given the history of regulated industries, that's not surprising. Industries threatened by competition tend to turn to regulation for protection. All the signs are there for a similar response in the hospital industry. As price competition struggles to take hold, certain hospitals are beginning to feel threatened. In some cases, their concerns are legitimate.

For years, we have been able to use a relatively price-insensitive hospital market to subsidize services like care for the disadvantaged. Hospitals that provided this care were able to build the costs into their private room rates.

But as the health care marketplace become more and more price-competitive, it will become increasingly difficult for these hospitals to provide care for the indigent by simply boosting the price charged to private patients. Price-sensitive health plans and patients will just take their business elsewhere.

Indigent care is not the only problem. Medical education is another service that has been financed by charging the patients in teaching hospitals higher rates. This practice will also become less available as price competition increases.

There's another group concerned about the emerging price competition. It's the private buyers of care who are either unwilling or unable to go into the health care marketplace and negotiate over price. This banner has been carried largely by the commercial insurance industry. The commercial insurers complain that when Blue Cross, HMOs, PPOs, and federal and state governments negotiate lower hospital rates, hospitals will invariably shift cost to the buyers who can't — or, more often, won't — negotiate. Higher hospital charges mean higher premiums, which make the commercial insurers less attractive to customers.

Thus, you can see how the constituency for rate setting shapes up. It consists of the public and charity hospitals, who would like rate-setting to maintain the cross subsidies that presently pay for indigent care. It consists of teaching hospitals who want to maintain the cross subsidy for medical education. It consists of those hospitals unwilling to change behavior and operate more efficiently. It consists of commercial insurers, who want federal or state government to set prices so they don't have to negotiate them.

And, finally, it includes state legislatures. State politicians find it far easier to maintain hidden taxes than raise new ones. And unless the cross subsidies for teaching and indigent care are somehow locked in, new revenues may have to be raised to pay for those services. Needless to say, raising taxes is not a very popular thing to do.

Price Competition Will Ultimately Win Out

The bottom line is that you can expect some schizophrenia among all of us in the next several years. At the same time consumer choice and price competition pick up steam, so will efforts to regulate prices.

I firmly believe price competition will win out. We've learned the hazards of price regulation too well in areas like surface and air transportation.

But, price competition won't come without a struggle. And there are problems that need to be resolved. We cannot leave the DRG system on automatic pilot. Refinements in the DRG system — like a severity adjustment — as well as reforms in some of the other areas I've mentioned today, will be necessary. I look forward to working with all of you in meeting these important challenges.

"Better Benefits at Lower Prices"

Remarks to the
American Association of Retired Persons
Washington, D.C.
February 2, 1984

Medicare promises to be a hot political topic in 1984. In part, that's because politicians of every stripe will be working to reduce $200 billion federal deficits. The administration has proposed savings of $1 billion from Medicare in 1985. These savings are largely achieved by raising the Part B premium, freezing physician payments levels, and delaying initial eligibility.

The Senate Finance Committee will be involved in designing the deficit down payment package. If you want a preview of what might be in that package, look at what Bob Dole was considering last year on November 18. His package included $2.1 billion from Medicare in 1985 — by raising Part B premiums, delaying eligibility, restructuring Medicare cost-sharing with catastrophic protection, limiting hospital payments, and limiting payment to clinical labs.

I don't agree with all of these proposals. I believe we must give the reforms we've already enacted a chance to work. And they are working. The projections for Medicare spending in 1985 have dropped $8 billion in the course of one year. Last year, Dave Stockman said Medicare would cost us $76.2 billion in 1985; now, he says it will only be $68.4 billion. We don't get credit for those savings in the budget. We only get credit if we cut more. And that's why Medicare will catch every budget-cutter's attention.

A recent survey by your organization showed that four out of five Americans over 25 years of age favor solving Medicare financing problems by further limiting payments to doctors and hospitals — not by raising taxes or cutting benefits. Congress already has responded to that sentiment: Nearly three-fourths of the $20 billion in Medicare cuts enacted in the last three years have been targeted at hospitals, doctors, and other health care providers.

If Congress simply limits payments in an effort to weed out waste, however, the result would likely be denial of necessary technology and services to some patients. If, for example, we limit payments for heart pacemaker implantation, hospitals may very well respond by either implanting less expensive — and less sophisticated — pacemaker models, or by simply refusing to provide the service altogether.

Certainly, there are inefficiencies in the Medicare program. But these inefficiencies will not be weeded out through regulation. Your policy guidelines support the notion of mandatory prospective budgeting or rate review programs. Don't be deceived by the promises of rate- setting. I think that most of the health experts you've heard from today would agree that even the most successful rate-setting system can only trim a handful of percentage points off of the rate of hospital cost increase.

Let me emphasize that such success is rare. It occurs only in states that have tough, well-seasoned regulatory apparatus in place. Furthermore, even if we assume the entire country adopts a rate-setting approach, and that it is effective — achieving a two percent reduction starting in 1985 — we still don't save the Medicare trust fund. In fact, we only extend solvency two years. Instead of going into the red in 1990, as the CBO presently predicts, the trust fund would only stay afloat until 1992 under the most optimistic rate-setting assumptions. For all that regulation and all that bureaucracy, we buy ourselves two years.

Still, you might argue, two years ain't bad. If it saves us money, why don't we adopt it? Three reasons. First, we have no evidence that hospitals in regulated states are more efficient than hospitals in unregulated states. In fact, one study concluded that there was no improvement in hospital efficiency when states adopted rate-setting. That means that although hospitals were paid less in order to achieve savings, the hospitals didn't respond by becoming more efficient.

Something Has to Give

That brings me to my second point. If hospitals are getting less money, and they aren't being more efficient, something has to give. What's sacrificed is quality and access to services. If I'm a hospital and I'm told that next year I must live within a certain budget, I have no real incentive to be efficient. I may cut out pacemaker implantations and artificial hips in order to live within my budget, but I have no reason to improve efficiency. In fact, if I'm an inefficient hospital, regulation gives me security. It tells me that no matter what kind of job I do, the government will help assure my survival. I don't think that's the kind of health system we want.

Finally, rate-setting destroys the very incentives we're trying to stimulate. In Minnesota, senior citizens are directing their business to the private health plans that best meet their needs — those plans that negotiate the best hospital rates and provide the best benefits. And our seniors are spending half as much on these plans as they did on traditional Medigap plans. That's real cost containment. Better benefits at a lower price. That's the way to stretch our Medicare dollars the furthest.

Some of you might think that hospitals and physicians stand the most to gain, and patients the most to lose under a consumer-choice, market-oriented approach to health care. Let me assure you that just the opposite is true. In Minneapolis and St. Paul, it's the doctors and hospitals who are feeling the squeeze. For the first time, they're facing patients who are choosing health care providers based on quality and price. In order to survive, they have to be very sensitive to what the patients want. Lower costs, evening office hours, greater convenience, less paperwork — those are the demands they have to meet. And it's the patients who benefit the most. The seniors in Minneapolis and St. Paul think the choices of health plans they have are terrific. They like the lower costs. They appreciate not having to fill out all that Medicare paperwork anymore. They like the fact that private health plans are designing geriatric medical programs.

Consumers Will Play an Essential Role

Achieving a marketplace in health care, however, takes work. It takes work on the part of hospitals, who must compete with one another for business on the basis of efficiency and effectiveness. It takes work on the part of physicians, who must compete for patients on the basis of cost and quality. And it takes work on the part of patients — on the part of senior citizens and working Americans — who must consider the choices they have and direct their business to the physicians and hospitals that best meet their needs.

Organizations like yours have an important role, too. You need to facilitate the flow of information about private health plans, physicians, and hospitals. We can't expect patients to become wiser buyers and users of health services if they aren't given the information on which to base decisions.

Consumer choice is not as easy as regulation, but it works. And regulation doesn't.

Fortunately, federal health policy is beginning to move in this direction. With the passage of the Social Security bailout bill last year, hospitals are paid by Medicare on the basis of preset prices — for example, $6,500 for implanting an artificial hip, or $4,200 for performing gall bladder surgery. For the first time, hospitals that are efficient will be rewarded for it — and those that aren't, will be penalized.

In addition — and more importantly — Medicare beneficiaries this year will be given the opportunity to use their entitlement to purchase private insurance. If a private health plan can offer better benefits than Medicare at a competitive price, it will be the preferred choice of Medicare beneficiaries. That's exactly what's happening in Minnesota.

It will take time, however, for these Medicare reforms to have an impact. And we must be careful in gauging that impact. Even though I am convinced that these reforms will maximize efficiency and eliminate waste, Medicare costs will continue to rise. New treatments cost money, even in the most efficient of systems. What it boils down to is that if we want the best our health care system can offer, we must be willing to pay the price.

No doubt about it, Medicare will be a hot topic in 1984. Together we can keep Medicare from becoming an election year scare tactic. Together we can keep our consumer choice reforms on track. And together we can build a strong Medicare program that assures access to quality care at an affordable price.

"Free Choice: A Minnesota Success Story"

Remarks to the
Metropolitan Senior Federation
St. Paul, Minnesota
October 13, 1984

The 1984 election campaign is in full swing and, I must say, my calmness has been especially tested in the last week. I watched the presidential debate last Sunday and felt my blood pressure rise. And, as I listened to the political rhetoric of the past several days, I thought my blood pressure would 'blow the gauge!'

Scare tactics have no place in a political campaign. And the responsibility for running a campaign of decency is in the person at the top of the ticket. When Walter Mondale tells you that Ronald Reagan and the Republican Party are out to "get" America's seniors, he is simply not being honest.

The fact is, the inflationary policies of the Carter-Mondale administration bankrupted Social Security, including Medicare. The Carter-Mondale inflation tax on the Social Security trust fund was a staggering 45.9 percent. And to finance that inflation tax, the Carter-Mondale administration passed the largest peacetime payroll tax in the history of the country — a tax on what you and I earn.

As a result of the Carter-Mondale policies, President Reagan and the Republican majority in the Senate took office in 1981 with the experts predicting that the Medicare trust fund would be bankrupt by 1982. Today, thanks to our health care systems reforms, that date has been moved back to 1992 — and is rapidly disappearing.

I want to assure you that you have nothing about which to be scared. But, you do have every right to be **concerned** about the future of Medicare.

Fortunately, we in Minnesota don't have to look far for the answer to our health care concerns. They are right here in our own state. We are sending a message to the rest of the country: An informed consumer of health care, who has the means and the opportunity to pick and choose the services best suited to his or her needs, is our best defense against rising health care costs.

Look at what you have done to control health care costs. The Twin Cities was one of the first places to offer Medicare vouchers. If a private health plan can offer better benefits and negotiate lower hospital prices, seniors now have the opportunity to purchase that plan. You've made that happen in Minneapolis and St. Paul. Forty thousand senior citizens have dropped traditional Medicare coverage in favor of private health plans that offer more for less. And more will join as these programs expand across this state — including my parents up in Stearns County.

Consumer choice is working to make doctors and hospitals more price-competitive. And, the reforms we've made in the last 3½ years in Washington are starting to work.

A major change in Medicare was included in the 1983 Social Security bill. The so-called "prospective payment system" (PPS) is a fundamental reform in the way the government pays hospitals for Medicare services. Hospitals are now paid a fixed fee based on the doctor's diagnosis of a patient. If the efficient hospital can provide the services for less money than the fixed fee, it keeps the extra dollars. An inefficient hospital, though, is forced to absorb the additional costs.

DRGs Don't Force People Out

Change doesn't always come easily, and there have been questions raised about the prospective payment system. I hear a lot about how these fixed fees — diagnosis related groups, or DRGs — are forcing hospitals to turn away patients or dump them on skilled nursing facilities. Well, DRGs do not force people out, hospitals do.

DRGs are budget-neutral. They are designed to take into account the different regions of the country and the differences between rural and urban hospitals. Some of the hidden costs of a hospital — medical education and capital expenditures, for example, are paid directly to the hospitals in addition to the DRG payment.

In short, DRGs aren't the villain. They are a tool for the health care consumer and the taxpayer. Why should one hospital or doctor in the same area charge you twice as much as another for the same procedure? We are working to make sure prospective payment is an even more effective tool by insisting on strong peer review organizations — that is, doctors monitoring the services provided by hospitals and other doctors to make sure that patients receive the best quality care available. And, we are working to expand the prospective payment system to include skilled nursing facilities, home health, hospices and other services.

We are making progress and our reforms are paying off. The latest report from the American Hospital Association shows that hospital expenses increased only 6.3 percent last year, less than half of the 13.9 percent growth rate of the previous year.

The drive toward consumer choice in health care which we are seeing in Minnesota is not universal, however. In fact, many today are preparing to turn health care into yet another public utility.

And, as with any public utility, government regulators would decide every year not **if** your rates would go up every year, but by how much. And they would decide who would be entitled to what services and where those services would be available.

Rate-setting turns your health care decisions over to the government. No discounts. No cut-rates. No negotiating for better care at a better price.

New Jersey is one of three public utility states. An HMO in New Jersey wanted to get cheaper rates for its elderly customers. The state regulators said, "No!" You can't discount a public utility.

And in return for turning your hospital into a public utility do you really control costs? Again, the answer is, "No."

In New Jersey hospital costs per capita went up 14.5 percent in 1982. In Minnesota — which offers health care consumers more choices than anywhere else in the country — hospital costs per capita rose only 7.4 percent in 1982, the smallest increase in the country.

The Alternative to Price Regulation

If turning your hospital into a public utility isn't the answer, then what is?

The American Association of Retired Persons has been running a series of newspaper advertisements in which it offers the right answer even if it suggests the wrong way of getting there. The solution, as the AARP says in its advertisements, is to create a system in which "you can shop for good health care at a fair price."

Politicians have to be honest with the people they represent. Take Medicare, for example. We know how expensive Medicare is, but do you know that the cost of your sick care in a hospital is only part of what you and the government pay when you pay your hospital bill?

When you pay your hospital bill chances are you are also paying for the education of new doctors. And they are educated as part of providing your care in hospitals.

But that's not all. You also are charged through Medicare for the poor who receive care at the hospital even though they can't pay their way. Hospitals make up those losses through your bill.

And that's not all. Your trip to the hospital also finances liver transplants (at $175,000 per transplant) and other high technology, even though chances are a million to one you'll never need most of those services. But you pay because insurance programs like Medicare are the only way hospitals can afford those expensive procedures.

But even that's not all. A representative of the Health Care Financing Administration which oversees Medicare, testifying at a hearing of the health subcommittee I chair, estimated that **53 percent** of the Medicare payments made to major teaching hospitals under the prospective payment system are for **hidden teaching and education costs.**

Why all this cross-subsidization and hidden costs in Medicare payments? Because politicians refuse to tax the general public and to get everyone — not just the elderly, the sick and the disabled — to pay directly for the poor, the unemployed or others who can't afford the cost of health care. Politicians refuse to pay up front for medical education and technology. Instead, they hide the costs in Medicare, moving it toward bankruptcy.

You know what's particularly cruel in all of this? It is the fact that it isn't just senior citizens who pay. It's our children and grandchildren. They have to pay 6.7 percent on their income up to $37,800 this year for Social Security and Medicare.

Next year, it will be seven percent on the first $39,000 of income. And employers have to match those amounts. That's a 14 percent tax on our work. That's $5,460 in 1985 which your working children can't take home from their labor.

Why should politicians use the payments our children and grandchildren make into a trust fund, which could be broke before they ever benefit from it, to pay for a surplus of doctors? Or, to pay for the poor and unemployed who could be helped much more efficiently and fairly through general taxation? Or, for experimental, high-priced technology?

The Minnesota Answer Is Working

Reforms are coming in health care. Rapid cost increases demand it. But turning your hospital into a public utility can't hold down costs and maintain quality.

We in Minnesota have a better answer. And it's working. But even here some special interests are talking about a state commission to set hospital rates — to require all payers to pay the same rates.

Let's not let that happen to us in Minnesota. Instead, let's share our success story — the success of free choice by consumers — with other parts of the country.

We in Minnesota have the answer to health care reform; now it's up to us to share our "right to shop for good health care at a fair price" with the rest of the country.

“Do What You Do Best”

Remarks to the
Florida Coalition of Employers
Tampa, Florida
March 27, 1984

Those of you sitting in this room face a lot of challenges. And, I’m going to talk to you today about the challenge you face best: Running a business. But, I’m going to tell you that, in one area of running your business, you could be doing a much better job. That area is health care. If you would just starting buying health care for your employees the same way you buy other supplies, we’d all be better off.

Many of you used to consider health insurance a giveaway. That’s what the auto companies did. They gave their employees first-dollar protection against hospital, physician, and other health services. And, now, they’re paying the price.

Chrysler estimates that it spends $6,000 per employee per year on health insurance. That’s equal to $600 per car, or 10 percent of the price of a new Plymouth Horizon. The Japanese, on the other hand, spend about $800 per worker on health care. That says a lot about Japanese price-competitiveness.

The automakers may have the biggest problem, but other companies are just as worried.

- Bob Burnett, CEO of Meredith Publishing, discovered that employee health insurance was costing him 50 cents a share. He said, “I can make more money for this corporation and its stockholders in the next three or four or five years by doing something effective in the way of cost control than I can by selling.”
- Honeywell’s health care costs — $124 million in 1983 — equal 40 percent of corporate profits. Their per employee health benefit costs have increased over 400 percent in the last ten years.
- Mike Gartner, President and Editor of the **Des Moines Register,** said, “I discovered to my astonishment that health costs were rising more rapidly than any other costs to our company, including the costs of libel suits.”

Health care costs have gotten the attention of business, no doubt about it. But what’s disturbing is where many businesses are channeling that concern.

Lee Iacocca, Doug Fraser and Joe Califano all agree that health care costs will have to be contained at Chrysler, and contained soon. They agree that the perception of health care as a free lunch must be corrected. What baffles me, though, is Lee Iacocca’s conclusion. A recent **New**

York Times article quotes Mr. Iacocca as saying, "The country needs an orderly system, and if that means some kind of national health insurance, then I'm for it."

These sentiments play right into the hands of the 80 percent of Americans who believe the way to best contain health care costs is to limit what physicians, hospitals, and other health providers are paid. But if anyone should understand the failure of price regulation, it's business.

It's you people who have been singing the praises of deregulation over the past several years. It's you who understand that deregulation of the airline industry saves your company and the public money. It's you who understand that deregulation of surface transportation results in lower transport costs. I'm certainly aware of it. When I moved to Washington in 1978, I discovered it didn't matter which moving company I talked to — the rates were all the same. How can I direct my business to the most efficient carrier when price is not a factor?

The lessons we learned from regulating surface and air transportation led us to deregulate those industries.

The Private Sector Is Responding

While much of the emphasis on expanding consumer choice in health care has been on government, the private sector is also responding.

Employers are developing low-option plans, for people with increased coinsurance and deductibles. They're organizing Preferred Provider Organizations, in which hospitals and physicians who provide quality care at a discounted price are given more business. And they're organizing and offering Health Maintenance Organizations. HMO enrollment has doubled in the past five years, and by 1994, will total 50 million.

The actions of private employers and federal and state governments have sent shock waves through the health community. Buyers are paying attention to price, and the old ground rules are being turned upside down.

But there are some problems. There is a constituency for the status quo among those who have benefited from the absence of cost-consciousness in the past.

What I can't understand, though, is why some businesses are joining those who support rate regulation as a way of preserving the status quo.

If anyone understands the workings of a marketplace, it's business, as a recent Lou Harris poll proves. Eighty-nine percent of corporate benefits officers felt that one of the major problems with health care is that there is no real competition to keep prices down. Not surprisingly, only 27 percent of physicians shared that sentiment.

So, do something about it!! Do what Bob Burnett and Mike Gartner did. They started an HMO in Des Moines. Or, do what Ford did. They offered their salaried employees the choice of a plan with deductibles and cost-sharing **or** enrollment in an HMO. And for their union employees, they established PPO-like arrangements for foot care and vision care.

And if you're already involved in rate-setting efforts, do what Honeywell did. Get out. Honeywell announced it was withdrawing from an initiative campaign in behalf of rate regulation in Arizona, and decided instead to pursue private sector approaches to cost containment.

What it boils down to is that if you believe in the marketplace, it's up to you to make it work. And you have two basic choices. One, you can negotiate over price directly with hospitals and physicians on behalf of your employees. Or, two, you can let your employees direct their business to efficient providers by giving them health plan choices.

Believe me, without these actions, your health care costs will continue to rise. And without your help, health care will drift toward rate regulation. With your help, I intend to make sure it doesn't happen.

"A Case for Consumer Choice"

Remarks to the Business Council
at the Homestead
Hot Springs, Virginia
April 11, 1984

You are more important than any politician; more important than anything else to the future of the American health care system. If you can change the way your employees behave and give them the opportunity to make choices, then the dam is going to finally break on prices. Some hospitals and nursing homes may go under. But that's what competition is all about. If you can't cut the mustard, get out of the business. Regulation never lets anybody fail. But we have to permit failure. We have to permit failure, or we are never going to ensure success.

Chrysler has to sell 70,000 cars to pay its health care bill. You'd think the autoworkers were the sickest, weakest, most injury prone employees in the country. Honeywell's medical care is equal to 40 percent of corporate profits. Are computers hazardous to your health? Last year, U.S. companies spent $80 billion in health insurance premiums — more than they paid in dividends — and up 122 percent from just six years ago. How many of you have seen your profits rise that fast?

Health care is a $350 billion industry. Forty cents on the dollar goes to hospitals, and twenty goes to physicians. That's not too difficult to imagine; not when an opthalmalogist in Detroit gets $2,000 for a 20-minute cataract surgery; or when a hospital charges a dollar for an aspirin; or when Chrysler finds that 2,264 out of 2,677 hospital days for its employees were inappropriate. And, I should point out that our health bill doesn't even include the $40,000 tax deduction granted to the emphysema victim — often a smoker — to build a swimming pool in his home. You and I pay that bill in higher taxes and higher debt.

The waste and inefficiency doesn't stop there. Oslo, Norway, has 23 newborn intensive care hospital beds. The Twin Cities of Minneapolis and St. Paul has 100. That's three times as many beds per capita as Oslo. It costs us about $90 an hour to take care of infants in that setting. Yet, despite the investment, our infant mortality rate is fifty percent higher than it is in the Scandinavian countries. The difference? Inexpensive prenatal care that reduces premature births and abnormal children.

Pouring Money Down the Treatment Sinkhole

So, what's going on? The problem stems from the fact that Americans can't see the forest for the trees. We're spending so much time and so much money concentrating on the sick that we're forgetting what made them that way in the first place. We're forgetting that the best incubator for an infant is its mother. We're pouring money down the treatment sinkhole; money that should be going to prevention.

There are two ways to remedy that situation. One is to spend more money on prevention. That's what we're doing with the Maternal and Child Health Block Grant. The other, much better way, is to realign financial incentives so that hospitals and doctors have a stake in preventing the premature birth.

The bottom line is that federal and state governments are strapped by runaway medical costs.

If you want a private sector health care system, you're going to have to put your corporate hat back on when you walk into the hospital board room. You're going to have to be prepared to wield the clout you have as a major purchaser. Don't think you're going to find the answers through negotiation, discussion, and widespread participation in the process by hospitals and doctors. Competition doesn't work that way. You're going to have to be tough, and you're going to make some people mad. But that's what competition and the private sector is all about.

You'll have to continue your very effective efforts in educating employees to the value of wellness and, with a choice of health plans, rewarding them for this wellness financially. You will have to educate employees and retirees to the need for genuine health policy reform. Use the same effective communications you use to get them to lobby other legislative efforts to support some of the Medicare reforms now going on.

Then, finally, you will have to continue the efforts to break free of the golden handcuffs of first-dollar employee health coverage and continue to increase the use of cost-sharing. I pledge that we will break the

IRS handcuffs on section 125 cafeteria plans, so as to facilitate employee fringe benefit choices. To make that choice effective, you will also have to consider supporting a form of cap on the tax-free nature of health plan premiums and tax-free reimbursement accounts, or you will face an equity and fairness argument from the flat-rate tax reformers. They will remind you that the government tax subsidy to automobile companies of approximately $3,000 per year per employee is not matched by a similar subsidy to the small town mechanics who repair those automobiles, or to many of the people who buy them.

That's a tall order for a beautiful spring weekend. But believe me, it's worth it. And I need your help.

Prescription for change

"Today's changing health care environment requires a new commitment to access — and a detailed examination of who continues to fall between the cracks and why?"

7

Who's Falling Between the Cracks:

Side Effects of Health System Reform

Health care reform, with all its advantages, is not without troubling side-effects. Increased competition and price sensitivity, for example, have required elimination of past subsidies for many individuals who are uninsured or who otherwise can't afford to pay for their health care. Cross-subsidies are also being withdrawn for the training of health care professionals in hospitals and for expensive new facilities and equipment. Individuals living in rural areas are concerned that increased competition will require smaller hospitals to close and physicians to relocate to larger communities. And, research and development of new technologies — a real strength of American health care in the past — is sometimes discouraged by an emphasis on near-term expenses without regard to what might be most cost-effective on the longer-term. There are ways of addressing each of these concerns. But, they must be addressed explicitly in a health care system which has heretofore dealt with virtually all expenses on an inexplicit basis.

7

"We Must Not Leave the Poor in The Dust"

Remarks at a Capitol Press Conference
Washington, DC
September 10, 1985

For the past three decades, access to quality care has been at the heart of this nation's health care policy.

This commitment to access dates to 1954, when Congress first voted a tax exemption for employer-supported group insurance premiums. It was extended to the nation's poor and elderly in 1965, with passage of legislation establishing the Medicare and Medicaid programs.

Today, the large majority of working Americans are covered by tax-subsidized group insurance plans through their employers. And, another 53 million elderly, disabled, and low income Americans are covered by Medicare and Medicaid.

But, despite this 30-year federal commitment to access, millions of Americans continue to fall between the cracks. Despite all the progress we've made, an estimated 30 million Americans still have no form of health insurance whatsoever, either public or private.

Who are these people? Where do they go for care? Who pays the cost? How many of them are going without care, or avoiding care until their illnesses become so severe that the cost of treatment becomes prohibitive?

These questions are particularly troubling in today's cost-conscious and competitive health care environment.

Traditionally, our nation's hospitals have served as a kind of "safety net" to treat many of the uninsured poor by accepting a large number of uncompensated cases.

The cost of providing this uncompensated care has been paid largely through cross-subsidization — simply by passing the bill on to paying patients in the form of higher room rates and other charges. In a sense, we've all paid for this informal national health insurance program through our health insurance premiums and the Medicare tax.

But, now, in today's competitive environment, hospitals are forced to account for every dime they spend . . . for every test they perform . . . for every syringe and rubber glove they use.

The Lowest Increase in a Decade

This new sense of cost-consciousness is paying off.

In 1984, health care costs nationally rose only 9.1 percent, the lowest rate of increase in more than a decade.

Because of the new prospective payment and Medicare voucher programs, the average length of stay for Medicare beneficiaries is down substantially. And, the Medicare trust fund, once expected to be bankrupt this year, is now financially stable through at least 1997.

I have been, and will continue to be, a strong advocate for the kind of competitive changes we are seeing in the health care marketplace. Only by giving health care consumers the opportunity to choose among competing health plans will we be able to keep down costs.

But, today's changing health care environment also requires a new commitment to access — a new look at the successes we've had in making quality health care available to all Americans, and a detailed examination of who continues to fall between the cracks, and why.

That's why I'm pleased to join with my distinguished colleagues here today in introducing the National Council on Access to Health Care Act of 1985.

The National Council created by this legislation will undertake a series of studies on current health care issues including differences in both the quality and availability of health care services for various economic and geographic segments of the population.

The National Council is charged with obtaining state and local participation in its investigation through locally-sponsored grassroots mini-conferences, modeled after those used by the White House Confernce on Aging. At least ten regional hearings are also to be conducted by the Council throughout the country.

Positive reforms are enabling consumers to choose what they want and pay only for what they get. But those same reforms are making it more difficult for health care providers to take care of those who can't pay. We will not leave these people in the dust as our health care system moves forward. The National Council can give us some real guidance on how best to serve them.

"Poor People Are Being Squeezed Out"

Remarks to an American Public Health Association Rally
Washington, DC
November 19, 1985

As the health care system becomes more competitive for the consumer's dollar, those who can't afford health care — preventive or otherwise — are being squeezed out.

Many Americans, including one out of every five children, have no health insurance of any kind, public or private. Not all of them are poor. Some are self-employed people or seasonal workers. But many of them are falling betweeen the cracks. They may even be turned away from hospitals for critical treatment.

At a recent public hearing here in Washington, I heard the story of a pregnant woman in a battered women's shelter in Minnesota. She was ineligible for Medicaid. The only way she could ensure the proper medical care was to go back to the husband who had abused her. She was soon beaten again, and her unborn child was injured in the womb.

We should all feel our stomachs turn when we hear those stories. But they remind us of our compelling mandate — federal, state and local governments alike — to give all Americans somewhere to turn for adequate health care . . . those in the dawn of life, those in the twilight of life, and those in the shadows of life.

We in this building are here to give you what you need to make that mandate a reality. You are the eyes, the backs, the hands that turn public health policy into healthy human beings. Help us do our jobs better, so we can help you do yours.

"Continuity of Health Insurance Coverage"

Remarks on the Floor of the U.S. Senate
Washington, D.C.
October 29, 1985

Today as the Senate completes work on S. 1730, reconciliation of the budget for fiscal year 1986, I would like to call my colleagues' attention to a provision included in the Finance Committee's package which requires health insurance continuity for divorced spouses, widows and widowers and their families.

The Finance Committee amendment began as a portion of S. 1169, the 1985 Economic Equity Act, which I introduced earlier this year. The measure requires employers who have over 25 employees and provide health benefit plans to continue coverage for spouses and families for up to 18 months after a loss of coverage due to a change in marital status, termination of employment, or in the event of death.

Economic equity for women in our society is closely linked to the ability of women to continue supporting themselves following the death of a spouse or divorce. The new poor in our society include women and children who at one time benefited from spousal salaries and fringe benefits and who, due to varying circumstances, no longer have access to them.

Health insurance continuity, at no cost to the federal government, assists former spouses, for the most part women, in becoming self- sufficient, rather than reliant on limited public resources. The 18-month continuity requirement allows a former spouse time to find employment, thereby gaining access to another group health plan, or to shop for the best private health plan.

Continuity is both a women's issue and a health care access issue. Health insurance continuity is vital for the spouses and families left behind by the death of a covered employee or a divorce and for spouses and families following a termination of employment. Eighty-five percent of all current health insurance is offered under group plans, generally through employment. Group health plans are able to provide the best coverage for workers and their families, at the lowest cost. However, following a divorce or death, or the termination of employment, the worker's spouse health insurance continuity offers a cushion between group health plans or for the transition from group to nongroup insurance.

Access to Health Insurance

Currently six million widows and divorced women are unable to obtain any health insurance. Many of those uninsured women held coverage with a spouse at one time, and following a divorce, death or termination of employment were faced with a handful of undesirable choices. Some former spouses were able to convert their current health coverage to a private plan which often did not offer the same coverage dollar per dollar as the group plan. In addition, often these new nongroup plans did not cover prior existing conditions. Many women went completely without basic insurance.

Health Insurance Continuity

The Finance Committee provision included in the reconciliation package achieves a valuable result through a simple 18-month extension of current coverage policies. An 18-month continuity period, during which the spouse pays the full premium plus no more than two percent of the total cost to cover administrative expenses, offers former spouses and their dependent children the opportunity to shop for the best health plan for their money or enroll in a new health plan through employment. Eighteen months is a modest buffer zone which will assist spouses of covered employees to adjust financially to the new economic or marital situation.

Health insurance continuity makes good policy sense on many fronts; it offers an opportunity for coverage to many who might otherwise turn to public assistance, and serves to slow the downward spiral of the feminization of poverty. This provision does not mandate benefits, rather it mandates the opportunity to maintain access to affordable group health insurance

"All Americans Deserve Access to Quality Care"

Remarks on the Floor of the U.S. Senate
Washington, D.C.
October 23, 1985

I am pleased to offer an amendment which would require hospitals serving Medicare patients to provide emergency services to individuals with life-threatening or potentially crippling conditions regardless of their ability to pay.

The measure was developed by myself and the Senators from Massachussets (Mr. Kennedy) and Utah (Mr. Hatch) as an alternative to a provision now in the reconciliation package before this body.

This amendment addresses an issue which has gained much public attention over the last year. The CBS news show "60 Minutes" ran a segment exposing the inappropriate transfer of a number of seriously ill patients from the emergency rooms of private hospitals to public hospitals.

Just last June, the **Washington Post** chronicled a Dallas case of a badly burned laborer who was turned away from a number of hospitals before he could get the treatment he badly needed.

I hope we have agreement on this point: the practice of rejecting indigent patients in life-threatening situations for economic reasons alone is unconscionable.

Frankly, we do not know how pervasive this practice of dumping the sick and indigent from emergency rooms actually is. The evidence I have seen so far is primarily anecdotal.

However, there are indications that this practice could escalate. And, in fact, we are seeing change in the health care marketplace which may even encourage this practice.

This change of which I am an advocate, as my colleagues know, is the movement toward price competition in the health care marketplace. This competitive approach will bring about higher quality, cost-effective health care.

But, it will also make it difficult for hospitals to continue their tradition of subsidizing services for those who cannot pay, from the charges on those who can.

In this environment the responsible hospital manager of a private nonprofit or invester-owned institution will not be able to treat many patients who lack health plans or insurance coverage.

Governmental Responsibility to the Poor

All Americans, rich or poor, deserve access to quality health care. This question of access should be the government's responsibility at the federal, state, and local levels. We cannot and should not expect hospitals to be this nation's national health service.

At the same time while we in the Congress and the state legislatures are groping for areas to get quality health care to the uninsured Americans, we cannot stand idly by and watch those Americans who lack the resources be shunted away from immediate and appropriate emergency care whenever and wherever it is needed.

The purpose of this amendment is to send a clear signal to the hospital community, public and private alike, that all Americans, regardless of wealth or status, should know that a hospital will provide what services it can when they are truly in physical distress.

This amendment does not prevent hospitals from making appropriate and safe transfers of patients for economic reasons. It does, however, make it clear that the Medicare program will not do business with any institution which willfully and knowingly, or through negligence, turns its back on an emergency medical situation.

The amendment is not a cure-all. It is a modest policy to address a problem which only recently began to emerge. We need to learn more about the problem and to see what further steps, if any, are necessary. The amendment calls on the General Accounting Office to thoroughly review the issue. This study should give Congress sufficient information to objectively assess this problem.

Whatever additional steps GAO recommends, whether further Medicare action or refinements in Medicaid, the aim of the Congress should be to encourage states to take definite action to guard against "dumping" at the local level.

"Side Effects in Health System Reform"

Remarks to the
Association of Academic Health Centers
Colorado Springs, Colorado
October 5, 1985

I wish I could tell you that the federal government has a clear vision of where we are headed in guaranteeing access to quality health care for poor Americans.

We know where we should be headed, but we know the national government is not going to solve this problem all by itself. There is no way to pass a bill that solves the problem of uncompensated care in the larger contest, and indigent care more specifically.

In this year's budget reconciliation bill, we did require "continuity" of coverage. That will help those people who lose their insurance coverage from an employer base, based on divorce, death, unemployment, or dependents who reach the age of eighteen. They are still going to have to buy in at 102 percent of the group rate, but they will get a group rate for their coverage.

We obviously need to do more in that area, but this is one little effort to say, "Here is a place that we can spread the base across employed people to help finance those people, who are related to those employed people in some way during periods of unemployment or the separation of a family relationship."

Beyond that, the problems of indigent care are largely problems of deficit and problems of the Ronald Reagan philosophy of "don't give them any more money or they will waste it."

The federal government, in 1980 contributed 32 percent of all state and local spending. Today it's 21.9 percent, and, it's going down. We are getting rid of general revenue sharing and a whole lot of other grant programs to states and local government.

What does that mean for the indigent? It means "tough luck." We are not increasing our participation in the AFDC, food stamps, or Medicaid. We are sort of just frozen in on that one. There has not been any effort to reform that system, since 1982. Is there any way to get a more realistic federal role in the whole income maintenance relationship? No. Is there federal effort to try to take the elderly poor out of Medicaid so you can leave that program for the genuinely poor and not for the povertized Medicare recipients, who want a nursing home or some other service? No. Is there that kind of effort going on to redefine the purposes of Medicare and Medicaid in serving the elderly poor? Well some of us would like to see it, but we don't seem to be able to disassociate the elderly population from the Medicaid program and provide for all their needs in Medicare.

I'm afraid I'm not very optimistic about putting any additional responsibilities for the poor on the states.

Everybody is leaving **my** state to go to Texas. Texas does not have an income tax. Texas only pays $143 a month for AFDC and Minnesota pays $700 a month. Texas spends half as much on education at the elementary and secondary level, at least until this past year, as we spend in Minnesota. A lot of people in my state believe that we are spendthrifts in my state; that we spend twice as much as we should on education; that we spend three or four times as much on welfare as we should.

The net result of all this is that I helped to elect a Republican House of Representatives from Minnesota last year, for the first time in 14 years, by being against raising taxes and, in fact, for cutting taxes by a billion dollars. So I contributed to the problem in Minnesota. We promised the people in that state we would cut their taxes by a billion dollars so they would not have to go to Texas and would not have to spend any more money on health care for the poor.

This is going on all over the country. Every state wants to hang on to business, so they compete to get their taxes down. The net result is that the tax at the local level, where you still have some sensitivity to problems, keeps going up, particularly, if you come from rural America.

Nobles County is in Southwestern Minnesota, on the South Dakota-Iowa border. It's one of the richest counties in the state; 75 percent of the assessed value of that county is agriculture. Four years ago, the average farm land was worth $3,000 an acre. Today you cannot sell it for $700. So what happens to the tax for the local hospital? What happens to the tax for the local school?

That is why I say, literally, the problem of the poor in America is not going to be Cook County General and Los Angeles General. The problems with the poor always have been in the rural parts of our country, but they are going to be exacerbated over the next five years. Dealing with those problems will require the attention of all of us.

"A Federal Government Responsibility to the Poor"

Remarks to a
Conference Sponsored by Sentech Medical Corporation
Minneapolis, Minnesota
August 22, 1985

The key question on the subject of providing health care to the economically disadvantaged is whether or not your national government will acknowledge its responsibilities to the poor. That largely depends on you. And, it especially depends on Republicans, because there is somehow the notion abroad today that deficits will help us dismantle the national government from doing anything other than defense, paying debt, and running a social insurance system for well-to-do people.

So the obligation to take care of the poor, I think, is a national obligation. But it is a struggle today to get others in Washington to acknowledge that responsibility. And it will be a problem for some period of time because, in large part, the costs of hospital care and doctor care for the poor have been subsidized by those of us who have third party coverage in the employment sector, or even in some cases by Medicare. That is ending and is ending very rapidly.

We need to deal explicitly with financing the access to the poor to our doctors and to our hospitals. The only way we are going to do that is by revising our whole national income maintenance or welfare system. That is an undertaking that Washington today is not yet up to. Yet, it's probably the greatest of all of our challenges.

"Preserving Access in Rural Areas"

Remarks to a Conference Sponsored by
Blue Cross/Blue Shield of Minnesota
Brainerd, Minnesota
July 20, 1984

For most of the last week, members of my staff and I have been on a whirlwind tour of Western and Northern Minnesota, traveling about 800 miles, and visiting with administrators and health care professionals from more than seventy rural communities. The main topic of discussion has been the new Medicare prospective payment system which has been put into effect in most of these hospitals in the past six months.

I think the overall message we heard from the rural Minnesota hospital community is that we are moving in the right direction. Although some of the smaller hospitals with very low occupancy rates are struggling under the new system, there appears to be a growing consensus that prospective payment is beginning to weed out a lot of the inefficiencies in the health care delivery system that have been well-known for a long, long time.

Most of the questions we heard throughout the week have focused on the Deficit Reduction Act we recently passed which makes a number of minor changes in the prospective payment system. Many of these changes are in response to concerns that have been raised about the system as it affects rural hospitals.

First, the Deficit Reduction Act makes it possible for larger rural hospitals to receive special treatment as "rural referral centers."

And, second, the act calls for several studies aimed at documenting more precisely the cost differentials between urban and rural hospitals.

The Secretary of HHS is required, for example, to submit to the Congress a study on the non-labor portion of those DRGs that have a high fixed non-labor cost. My discussions with rural hospital administrators has found a lot of concern that the non-labor portion of certain DRGs, particularly implant procedures like hip replacements and pacemakers, are not adequately compensated in rural hospitals.

A pacemaker is a pacemaker, for example, whether it is implanted in Roseau or at the Mayo Clinic. It might even cost the Roseau hospital more because it doesn't buy pacemakers in the large volumes purchased at Mayo and because it costs more to ship a pacemaker to Roseau then to Rochester.

Under the Deficit Reduction Act, the Secretary of HHS is also required to conduct a study to develop an appropriate wage index to reflect more accurately the difference in hospital wage levels. This index is to take into account wage differences between full-time and part-time workers. And, HHS must then develop criteria so that a hospital can appeal if its wage index adjustment does not accurately reflect the wage levels in its labor market.

On the longer term, it's extremely important that Congress address the need for a severity index and national averaging under prospective payment so that the urban-rural payment differential can be eliminated altogether. In the meantime, I have tried to assure rural health care providers that I will continue to work with them to assure a smooth transition to the new system, with ongoing refinements as problems crop up.

Increased Competition Among Rural Doctors

I don't have to convince those of you in this room that the availability of health services to rural areas is an essential component of a complete health care system in this country. I strongly believe that the hospital as a community institution will continue to play a vital role in all parts of the country, including rural areas. The function of all hospitals — including rural hospitals — will evolve over the next few years, however, to meet the changing health care needs of the communities they serve.

Interestingly in many rural areas — which historically worried about doctor shortages — we're now seeing a dramatic increase in competition for patients among different groups of physicians. And, we're seeing the beginnings of particularly strong competition between the sole practitioner and the large group in the next largest city.

I heard a lot, on my recent trip, for example, about the small town doctor versus the group clinic in Fergus Falls or Fargo or Brainerd. I was amazed to see how aggressive the two large clinics in Fargo-Moorhead are becoming in draining patients out of the small towns in that area.

The sole practitioners are saying, "Geez, what do I do?" And, the smaller hospital administrators are saying, "Geez, what do **I** do?"

Doctors themselves are facing some very real dilemmas: "Am I better off signing up with one of these larger clinics? Do I have to buy into Dick Reese's beautiful illustration of corporate medicine? Is there a future for the sole practitioner?"

Patients in these small towns are facing dilemmas, too. Because they're being offered more choices, they're having to make more judgments based on convenience and quality.

If you live in a small town with one or two doctors, there are going to be times when one of them is in surgery and the other is on vacation. Are you going to be willing to wait? Or would you be better off signing up with a group in Fergus Falls or some other larger city where there's always a doctor available?

A friend of mine from Redwood Falls told me recently that she always went to the doctor in Willmar because she had to wait too long in Redwood Falls. Those are the ways people are making decisions today, and that's impacting on doctors.

Hospitals Are Also Competing

Parallel to the increased competition among physicians is increased **hospital** competition in rural areas. This is largely being led by what I call the "doctor grouping process" now going on.

Fargo-Moorhead is way out ahead in that area right now, but if the administrators in some of the other larger hospitals get smart, and some of their doctors get smart, maybe they can head off the competition from the very large regional groups and hospitals and stake out a larger territory of their own.

Here in Brainerd, you don't see this strong competition for patients to as great a degree as you see within fifty or sixty miles of Fargo-Moorhead. The doctors here are watching carefully as the HMOs creep up Highway 371 from the south.

But, I told the doctors here, I wouldn't wait that long because when the Blues get here, or SHARE or Group Health or somebody else gets here with their $19.35 a month plan for seniors, it's going to be too late.

"Maybe you guys ought to get together," I told them, "and start putting your own plan together. Or, maybe you ought to cut a deal with one of the organized health plans before they start contacting patients directly."

Sorting Out What's Really Important

One hospital administrator, earlier this morning, asked me what I knew about joint ventures, or hospitals coming together. That was after I had talked about a six-county area in Southwestern Minnesota where all the small hospitals are broke, but don't know what to do about it.

That's partly because, here in Minnesota, we have what I call the "school consolidation mentality" where you can't be a town anymore if you don't have a high school and a hospital. They don't want to give up. Nobody wants to be the first to make the move.

And, I kept saying to them,"You don't have to die, you know. The Jackson Hospital doesn't have to close. But, it does have to change."

And how does it change? Well, it changes in the larger community context — maybe in the context of the other health care providers and programs in a six-county area. But, somebody's got to facilitate that change.

Maybe that's some group of community leaders locally. Or, maybe it's some larger health care organization that puts something together in a region.

That's what's happening out west.

A whole lot of changes are coming in the organization and delivery of health care in rural areas. That change can, if handled properly, be managed. But, right now, the health care people in a lot of rural areas aren't even talking to each other. And, they're sinking, sinking, sinking.

The answer, of course, is that the level of care ought to be geared to the seriousness of the problem in a particular community. Everybody has a right to access to high quality primary health care. And, everybody has a right to accute emergency care, close enough to home to make the critical difference in an emergency situation. Another priority, certainly, is access to long-term care, close to home and to family. I'm sure that studies would prove that grandma recovers faster from her hip surgery if she's visited regularly by her grandchildren.

But, that doesn't mean that every facility we now refer to as a "hospital" needs to do **everything**. And, that doesn't mean that hospitals can't get into whole new lines of business — particularly in prevention and wellness — on which lots and lots of health care dollars are going to be spent in the years ahead.

The key thing to remember is that hospitals in rural areas are going to continue to play an essential role in delivering health care services in the future. But, in order to stay alive, they're going to have to change.

My travels around the state over this past week convinced me that in many cases the physicians and administrators know that change is coming. It makes them uncomfortable, because all of us have a natural tendency to resist change.

But, by and large, the people I talked to believe that we could not continue to run this nation's health care system the way we had in the past.

They're nervous about government making the changes it is making because they believe the government never does anything very well. But, they are seeing the sense to approaching reimbursement on an episodic basis. And, I think they are committed to making it work.

"A Daisy with a Long Stem"

Remarks to the
American Council of Teaching Hospitals
Baltimore, Maryland
May 16, 1984

The major changes going on in health care obviously have broad ramifications for graduate medical education. Congress will continue to look for ways to cut Medicare spending, and medical education stands out as a daisy with a long stem. As you all know, Medicare reimburses hospitals for a share of the cost of training residents, nurses, and other health care personnel. In 1984, the Federal government will spend over $4 billion on direct and indirect medical education expenses under Medicare.

The Advisory Council on Social Security, chaired by former Governor Otis Boen of Indiana, recently submitted its recommendations for bailing out the Medicare trust fund. Among other things, the council recommended that Medicare stop paying for medical education. The council felt that the involvement of the Medicare program in underwriting these costs is inappropriate since the program is designed to pay for medical services for the elderly, not the costs of training doctors and nurses. These sentiments are shared by a number of my colleagues.

Given this assault on your front line, you may be tempted to regroup, enlist the help of your powerful friends, beat back the opposition, and maintain your adjustment. And, you may very well be successful. But, if that's where you focus all your attention, you're going to lose the war.

Price competition is the name of the game. If you aren't price- competitive, HMOs and other private health plans simply won't send their patients to you. Your medical education payments from Medicare won't mean much if Medicare patients aren't coming to your institution. The growth of Health Maintenance Organizations and Preferred Provider Organizations, together with the expansion of Medicare vouchers and employer multiple choice portends greater attention to price on the part of buyers of your services.

A Four-Part Attack

In order to be successful in this new era of price competition, you're going to have to mount an attack on several fronts:

First, you're going to have to price your services to be competitive. That means that for the more routine services you will have to compete with community hospitals. And you will have to eliminate the cross-subsidies that presently exist in your institution. You will no longer be so free to add the cost of teaching, the cost of indigent care, or the cost of high technology into the price you charge for taking care of a patient with pneumonia.

Second, you're going to have to reorient your training of health care professionals to emphasize economics as well as patient care.

Third, you're going to have to work with federal and state legislators to explicitly identify the cost of medical education and develop programs to pay for it. To this end, I have already asked my staff to develop a proposal for establishing a medical education block grant. Money would be allocated to the states based on the number of filled intern and residency positions at hospitals in each state. States would be required to match the federal grant at a very modest level — perhaps 10 or 15 percent.

States would be required to pass on the lion's share of the money directly to hospitals based on the number of training positions they have. Although the details of this approach are still being worked out, the principle is an important one: Identify medical education costs and pay for them separate from patient care. It's the only way you will maintain a position in the price-competitive hospital market.

Fourth, we must identify and develop a program of paying for medical care needed by the economically disadvantaged. That's why my Health Subcommittee is holding a series of hearings this year on the medically indigent. Once we've identified the nature and extent of the problem, we will develop an approach for dealing with it. It's a problem we cannot ignore if we want the marketplace to work.

The challenges ahead of us are massive. But they are not insurmountable. The opportunities of the marketplace — for improving efficiency, for enhancing quality, and for keeping medicine in the private sector — oblige us to tackle them. I look forward to working with each of you as we tackle them together.

"A New Role for Medicare in Physician Training"

Remarks on the Floor
of the U.S. Senate
Washington, D.C.
May 16, 1985

Since its inception in 1965, Medicare has reimbursed hospitals for its share of direct educational costs. The direct education costs recognized as reimbursable are defined as the salaries and fringe benefits for residents, and interns and nurses and other health professionals in hospital training programs. The allocated costs of conference and classroom space within the hospital, as well as additional supervision, administrative and equipment costs are also paid.

Medicare support for this activity has been deemed appropriate in the past because:

First, the physicians, nurses, and health professionals in these programs provide service to Medicare patients.

Second, virtually all other payers had traditionally been willing to pay their share of these education costs.

Third, it was felt that these educational activities enhanced the quality of care in hospitals, and

Fourth, in the 1960s and early 1970s, the view was widely held that there existed a shortage of quality trained physicians, nurses, and other health professionals.

But times have changed since 1965. The Nation now faces a growing surplus of physicians, estimated to reach 35,000 by 1990, by conservative projections. At the same time there are 73,000 residents in the training pipeline. Many of these are training in specialties already in oversupply.

The medical schools in this country have acted responsibly to reduce their class sizes to bring their outputs more in line with the requirements for physicians.

In 1984, the medical schools in the U.S. reduced their class sizes to 16,997, down 323 students from the enrollment in 1981. The University of Minnesota Medical School has reduced its class size from 239 in 1981 to 223 in 1984, and plans to continue to reduce class size until it reaches 200 in 1987.

On the other hand, the number of foreign medical school graduates seeking residency training in this country has increased three fold since 1981. In 1984, over 10,000 foreign medical graduates participated in the match for placement in U.S. hospital resident positions.

The system needs better control and management. This is why my colleagues and I have joined together to not only reaffirm but to reform Medicare's role in subsidizing the direct costs of clinical training in hospitals. The bill we introduce today continues the Medicare commitment to funding clinical training in hospitals from the Medicare trust fund. It begins a process of defining more explicitly the direct expense Medicare will reimburse.

This proposed legislation would continue Medicare funding for its share of three years of training for family practice, general internal medicine, general pediatrics, and emergency medicine. Four years of funding would be provided for such specialties as radiology, psychiatry, and pathology. Five years of support would be provided for general surgery.

The reform my colleagues and I propose would not dictate specific requirements for the distribution of training programs to hospitals and affiliated medical schools. It would provide financial constraint, instead, which would require them to be much more sensitive to the economics of the training decisions they made for their institutions. The combination of these financial signals and market forces should lead to more constraint in institutional training policies, particularly as regards the number of subspecialty slots made available.

The contraction of subspecialty slots likely to result should shift emphasis more to primary care training. In this way, more physicians in training will choose to end their graduate medical training at the still needed first-contact specialties. This should contribute both to cost containment and increased access generally. It is good Medicare policy and good physician manpower policy to produce more first contact physicians.

The Role of Foreign Students and Schools

Further, under the bill, Medicare would only contribute to the residency training of persons who are graduates of accredited schools in the United States or Canada or who are citizens of the United States or Canada. We need to do a better job of specifying who we will support for clinical training with Medicare funds. With the physician surplus and the fact that the number of residency positions for U.S. citizens are becoming in short supply, it is inappropriate to spend Medicare patient service dollars on the training of 6,000 alien foreign medical graduates. As many as 90 percent of these residents do not return to their home countries so residency training for most FMGs is not a matter of foreign policy. The aliens who train here frequently plan to stay and ultimately also contribute to this nation's oversupply of physicians.

The reforms in the bill are partially driven by budget pressures. The freeze on direct medical education payments projected for fiscal year 1986 reflects this notion. However, even more importantly, the bill will help focus attention on the basic problems facing the hospital training of physicians, nurses, and other health professionals in this country.

A year ago, in a speech at the annual meeting of the Council of Teaching Hospitals, I highlighted the effect that the evolution toward consumer choice in health care is having on teaching hospitals. As the health care marketplace becomes increasingly price competitive, the hospitals which have clinical training programs are finding that they are less able to pass onto in-patient service dollars the costs of such "societal contributions" as graduate medical education, unsponsored research and technology development, standby tertiary care resources, and even care for the uninsured poor.

Cross-Subsidies Are Being Exposed

These competitive pressures are having a positive effect on the management of health care services. The system is becoming more efficient. But, the cross-subsidies are also becoming exposed and vulnerable.

I can see this happening in the Twin Cities in my home State of Minnesota. The pressures of health plan competition are having a profound effect on the University of Minnesota Hospital. I have been told, for example, the hospital is having to negotiate for business with physician groups and HMOs at prices frequently below amounts the institution received for the same services in a cost-based reimbursement environment. The volume these agreements provide will be helpful but clearly a teaching institution will have to change in this kind of environment without outside subsidy. The HMOs and other purchasers are just not willing any more to pay for the costs incurred in a teaching hospital which do not directly benefit their sick subscribers, and price competition will mean that teaching hospitals will not be able to incorporate these costs in their prices.

Some will argue, I am sure, that the Twin Cities' health care market is an anomaly. This may have been true five years ago, but it is not today. I have been traveling all over this country, and I have seen competition between providers and health plans sprouting up in every major city. The medical school deans, hospital administrators, and physicians I talk to give me the sense that teaching hospitals, even the foremost in the nation, are beginning to feel the stress of price competition.

Clearly, teaching hospitals are public resources which are national, regional, state, and local in nature. Most of the residents trained in Chicago or New York go elsewhere to practice. Nevertheless, it is the communities of Chicago, New York, Boston, and the other major teaching enclaves which gain the most from having the teaching institutions.

The health services industry is the third largest employer — after retail and wholesale trades — in Chicago, New York, and Boston. In these three cities alone a total of over 500,000 people are employed in health care. The dominant health care institutions in these cities are the large teaching hospitals.

These same institutions also provide the lion's share of the health services to the poor in the cities. These teaching hospitals enhance the cities' quality of life and stature by providing a broad range of tertiary care services and by engaging in biomedical research. When considered in these terms, state and local governments need to realize it is in their best interest and the interest of their communities to see the academic medical centers sustained.

Medical Schools Must Help Design Changes

Currently, Medicare pays about 30 percent of the direct costs of clinical training through its patient services dollars. The bill I am introducing today affirms Medicare's commitment to pay for its share of these direct costs.

Most of the other 70 percent comes from the payment of hospitals billing non-Medicare patients. As the non-Medicare purchasers begin to negotiate with hospitals based on prices which do not include the subsidies such as clinical training, state and local governments will find it necessary to set explicit policies and probably subsidize at least part of these activities.

Medical schools throughout the country, and the organizations which represent them, are aware that changes are coming and that it is best to participate actively in shaping those changes. Since I introduced legislation last October placing a lid on Medicare's contribution to medical education, there has been a flurry of activity by study groups and task forces representing the great teaching hospitals of this country.

This kind of dialogue is good and I look forward to continued input on this subject from those who are both most affected and who possess a host of good ideas on how medical schools can continue their important role in providing health care for both present and future generations.

"Side Effects in Health System Reform"

Remarks to the
Association of Academic Health Centers
Colorado Springs, Colorado
October 5, 1985

Spending reform in health care, as in other areas is premised on the fact that the way we deliver services, depends on the way we finance them. That is the simple summary of what we are all doing in the health care area.

I am not going to regale you with all the data on the surplus of doctors. Paul Elwood says 300,000 by the year 2000, if we keep up on where we are going. You know what's happening with the foreign medical graduates coming into this country. You know all of the incentives have been turned around the wrong way. By changing the way we finance the delivery of these services, it's our joint mutual effort to change the way we deliver those services.

The way we provide health care in rural America and urban America depends on how explicitly we are willing to deal with the financing of acute care. How much we are willing to invest in health promotion and wellness. How much we are willing to put into new technology. How committed we are to the poor and at what level of government we are willing to deliver on that kind of commitment. Are we willing to eliminate the subsidies that currently exist and deal with education, the indigent and high technology in an explicit fashion?

As a reformist and a philosopher, I can say, you have to do that. When you have a responsibility to a large multimillion institution, and you have a responsibility to a community that has traditionally depended on you for education and outreach and indigent care and technological development and research and a lot of other things, it's quite another story, as my first GME bill proves.

When I first proposed a state block grant for Graduate Medical Education, after you got through wretching and calling me names, I started getting invited to small meetings and places like Chicago. And I heard, "Honestly Senator, we don't trust our legislature." And I said, "You are probably right not to trust your legislature." I appreciate those problems, but that cannot deter us from the goal of making society, in the larger context, deal explicitly with these problems.

On the political side, how you are going to get society to face up to those responsibilities that don't fall exactly on any one consumer is another problem.

If I am not directly responsible any longer for letting you take a part of my Blue Cross or Aetna premium and shift it over to take care of your uncompensated care, I say, "Oh no you don't. Cut that part off. Don't I have a different responsibility to those poor? If I don't finance it through my health premium, maybe I better face up to the reality of financing it somewhere else." Same thing is true with medical education and all the rest of the pieces of the health care system that are now falling between the cracks.

How are you going to prove to me that I have that responsibility? Again, that is a joint and a mutual responsibility that needs to be faced up to by government at all levels. We made a commitment this year on behalf of the Medicare Trust Fund, and on behalf of all the people that pay grievous amounts of payroll taxes. We made a commitment to continue that broad-based undergraduate medical education. Some people think, maybe we should have larger commitment. Some people think we should not have made any commitment at all. But what Dole-Durenberger does is say, "we will make a broad-based, across-the-board commitment to graduate medical education."

You don't have to go out and find that extra billion dollars across this country, that you might have been required to find if we just zeroed out the teaching reimbursement entirely. We have said to all of you, "That is our national commitment."

I don't know how long we can protect it. I don't know what is going to happen to the surgical subspecialties and some other things, that are, in effect, cut out. I have a deep concern for that, but cannot solve it in the first year.

I cannot solve any of these problems without your help. I cannot solve them without the help of the various medical specialty groups. I cannot solve them without the help of state legislatures, in various states in this country.

A lot of people have to get in on the act, if you are going to deal with the issue of medical education explicitly. But I believe that I have made an important first step on behalf of the people of this country. And I and Bob Dole and the others who have been part of this, have made an important first step in saying, "We want a broad-based national commitment to high quality medical education."

Indirect Teaching Costs: A Dilemma

On indirect teaching and hospitals with a high proportion of charity cases and some of the other things you're concerned about, it's very hard to tell where we might be headed. But the important thing to understand is that we have a philosophical commitment to broad-based tax base support for what you are trying to do.

After that, it's up to you to go get some more help from somebody else. It's up to you to speak to the other third-party insurers in this country, asking them whether they will make the same kind of commitment to extend that base for GME that we have made through Medicare. It's up to you to get your legislators interested in what is going on.

With all due respect to Texas, when I was down there a few years ago and went to Dallas and Houston and saw the wonderful things that you can do with some tax base support, and with a lot of national resource commitment through foundations and so forth, I began to worry about my little University of Minnesota. All it's got is its tax base subsidy and its shifting subsidy from the premiums. And, I got to worrying that maybe only medical schools that get 50 million dollars from Hershey candy and millions of dollars in contributions from oil and gas institutions are going to survive. That led me to say, "As a nation we cannot let that happen, we need to build this broad base under medical education."

Beyond that broad base of commitment from Medicare, however, the kind of creativity and ingenuity which each of you brings to this subject will greatly determine the future role of the vital institutions which you represent.

"Medicare's Responsibility to Encourage Research And Technology"

Statement on the Floor
of the U.S. Senate
Washington, D.C.
April, 1986

Recent public and private sector reforms represent an important departure from the "more is better" mentality that helped drive health costs upward in the last two decades, and it is a trend we should continue. At the same time, however, we must ensure that our cost- consciousness doesn't lead to a lower standard of care for our nation's elderly.

While the cost-controlling effects of recent reforms have been positive, they also have the unintended side effect of hindering the use and development of advanced medical technologies. Because the new prospective payment system pays a set price for each illness, it encourages hospitals to use the cheapest available treatments. Thus, two types of technologies are discouraged: those that improve quality, but at a higher cost, and those that cost more up front but reduce the need for return visits to the hospital.

For example, a new generation of artificial hips lasts longer than those developed in the past. They cost more initially, but can cut overall costs by requiring less follow-up surgery for replacement. Technologies such as these must have a chance to survive if we are to continue providing the best health care in the world. But the new payment system discourages hospitals from using them. While we want to cut costs, we also want to provide incentives for entrepreneurs to continue pushing the frontiers of medical science.

The negative incentives of the new system would be greatly reduced if Medicare were prompt in adjusting payment rates to take new technologies into account. Unfortunately, regulatory lags can delay these adjustments for months or even years. Even the initial Medicare decision to allow hospitals to use a new technology for Medicare patients can take months after FDA approval for safety and effectiveness. Delays in adjusting payment levels — which Medicare is legally bound to do only once every four years — drag the process out even further.

Example: New Technology for the Deaf

Perhaps the best way to underscore this problem is with an example:

It is difficult for those of us blessed with all five senses to imagine a world without sound. Although the deaf in our society show tremendous courage in coping with their disability, their world can often be terribly isolated. What's more, those who lack hearing must take special precautions to avoid accidents that the rest of us avert by simply responding to a siren or a honking horn.

But, now, medical technology is trumpeting a sound of hope for many of the deaf. A new device — the cochlear implant — has already removed the shroud of deafness for hundreds of patients, and could help up to 200,000 more Americans who are totally deaf. Refinements that could greatly improve this first-generation product are already being tested.

Placed surgically in the inner ear, the cochlear implant stimulates the auditory nerve electronically with signals sent from a tiny microphone that can attach to the patient's eyeglasses. With the implant, the user can hear sirens, car horns and even conversation. Though it won't quite distinguish among words, it greatly aids the deaf in reading lips and following conversations. Perhaps most importantly, it opens the door to the possibility of future treatments that could give total hearing to many of our nation's 2,000,000 deaf citizens.

Although the FDA has found the cochlear implant safe and effective and approved it for general use in adults, and although most insurance companies will pay most of its $9,000 price tag, Medicare patients are shut out of the exciting new world this technology creates.

Why this seeming inconsistency?

First of all, FDA approval of a technology's safety and effectiveness doesn't make it available to those on Medicare. A separate decision — a "coverage decision" — must be made by the Health Care Financing Administration (HCFA) on whether Medicare will reimburse hospitals for treating patients with new technology.

Second, even after HCFA decides on coverage, there's often another lag: Under prospective payment, HCFA must adjust its payment rates to accommodate higher costs of new technologies before hospitals can use them without taking a financial loss. Unfortunately, both of these HCFA decisions can take months or even years. Indeed, more than a year after FDA's approval, deaf patients who depend on Medicare coverage continue to wait on a favorable coverage decision on the cochlear implant. Once that decision is made, they may have to wait even longer for payment from Medicare.

Third, the lags are worsened by a Catch-22 situation that makes it difficult for a technology to prove itself to Medicare. Medicare demands a great deal of data about a new product's costs and benefits before making coverage and payment decisions — especially if the product will raise costs. But new data can hardly be generated if Medicare does not approve or pay for use of the product.

Some technologies, of course, don't raise short-term costs and, therefore, have an easier time clearing these Medicare hurdles. Others raise costs, but also greatly improve quality of life or help cut long-term costs. The current system treats these advances in a penny-wise, pound-foolish manner. These technologies, important as they may be, are the worst victims of the HCFA lags. So products like the cochlear implant get hit by a double whammy — first the HCFA coverage lag, then Medicare's resistance to technologies that raise up front cost.

Negative Signals For R & D

The net effect is a silent rationing of health care that deprives patients of life-enhancing therapies just because they're on Medicare. What's more, these coverage and payment lags send negative signals to those working on the next generation of medical breakthroughs. If the entire Medicare market — which makes up 40 percent of hospital costs — is closed off for lengthy periods of time, what financial incentive does the maker of the cochlear implant have to continue refining the product so that its full promise is achieved? That's particularly the case if the product is used primarily for elderly Medicare patients.

For these reasons, I am introducing the Medicare Equity Act to provide a temporary footbridge that allows Medicare patients to benefit from certain technologies while the permanent span between FDA approval and Medicare payment is being built. My proposal would accomplish this objective using a free-market approach rather than adding another layer of bureaucracy to an already cumbersome process. In particular, it provides this bridge for those cost-raising technologies that are now discouraged by Medicare, but which hold potential for long-term savings or substantial improvements in quality or access.

Among other things, my bill would:

- Provide payments, for a limited time, so hospitals can use FDA-approved technologies for Medicare patients before the HCFA payment decision, while requiring the hospital to bear some of the financial risk for doing so;
- Generate valuable data on new products that HCFA can use to expedite its coverage and payment decisions;
- Provide an incentive for developers of new technologies to continue working on the next generation of advances; and
- Contain provisions to strictly limit budget outlays using the more competitive environment stimulated by the prospective payment system rather than adding another cumbersome, expensive layer of technology assessment to the HCFA approval and rate-setting process.

My proposed Medicare Equity Act would allow a hospital to receive a limited additional Medicare payment for using a cost-increasing technology that has FDA safety and effectiveness approval, but that has not yet been covered and paid for by HCFA. Medicare would not pay for the full cost of the new technology. It would pay only part of the cost and what the technology **adds** to the price Medicare would normally pay for treating a patient.

I don't believe that Medicare should be liable for the full cost of the device before it has been approved for coverage. I think it is reasonable for hospitals to invest some of their own funds in the technology. If they do, they will be encouraged to scrutinize their investment options. The hospital, therefore, shares much of the responsibility for the increased cost.

I should also point out that this program won't necessarily cost Medicare more money in the long run. Some new technologies, as I have already pointed out, cost more up front, but save money down the road because they reduce the need for follow-up surgery or hospitalization.

Government Gets Something in Return

In addition, the government gets something in return for payments under the act. When hospitals use technologies that are paid for under the bill, they must provide data to HCFA about the technologies' cost-effectiveness. These data can be very valuable to HCFA as it decides on coverage and sets payment levels.

Under the bill, the Secretary of Health and Human Services must use these data in adjusting the Medicare payment levels, as well as share them with other federal agencies, including the Prospective Payment Assessment Commission, the National Institutes of Health, the Food and Drug Administration, and the Veterans Administration, among others.

This data-generation function should reduce the Catch-22 problem I mentioned earlier, where funding is held back because adequate data are unavailable. It should be particularly helpful in illuminating the true value of medical technologies that do raise costs — by providing data not just on their price, but also on their impact on quality, access and health status, among other things.

The final provision of the bill would assure that Medicare payment levels and categories are kept as current as possible.

Right now, the HHS Secretary must adjust those categories to reflect new technologies only once every four years. So payments in effect become frozen in time, reflecting yesterday's medical advances, not today's.

This bill would simply require the Secretary to adjust Medicare's payment levels annually rather than every four years. That would increase the accuracy of the Medicare system, allowing it to reflect cost changes, both up and down, in different medical procedures.

This legislation is especially important in light of additional squeezes that are giving health care a back seat among policy priorities. Despite cuts of well over $30 billion in Medicare since 1981, the Gramm-Rudman Amendments place greater cost-cutting pressure on Medicare. What's more, Gramm-Rudman could further cripple those regulatory agencies that must approve new technologies before the public can take advantage of them.

America's elderly deserve access to the best health care treatments available. And, they deserve assurance that the health care industry will continue seeking solutions to such calamaties as cancer, heart disease and Alzheimer's disease.

My bill moves us in the right direction. But it does so carefully, with specific limits that do not add more bureaucratic hurdles and with plenty of incentives to encourage efficiency in the use of new technologies.

"Integrating Medical Capital Costs"

Remarks on the Floor
of the U.S. Senate
Washington, D.C.
August 1, 1985

Two years ago, Congress set in place a new payment system for Medicare hospital services. This system, based on a payment for episode-of-illness for 468 diagnosis-related groups, was designed to change the incentives for hospitals — to encourage them to manage resources more efficiently. This new payment has had a tremendously positive effect on the health care system. But not all of Medicare's expenses for hospital services were included in the new methodology.

Excluded from the fixed-price was a passthrough for hospital capital cost. We were reticent to commit Medicare to a capital policy because the data we had on hospital capital costs were clearly not as adequate as what we had on the operating expenses. But, an agenda for restructuring capital payments was set forth. This agenda included: First, a deadline of October 1, 1986, to restructure Medicare payment for capital costs. At that point, unless Congress acts otherwise, statutory facility review for Medicare would become mandatory. Second, the Congress instructed the Secretary of Health and Human Services to complete a study and make recommendations to the Congress on Medicare capital policy reform by October 1, 1984.

It was the intent of Congress that the two capital deadlines -- the threat of mandatory review and the completion of the Secretary's report on capital — would provide a catalyst for reform. The hospital industry and other interested parties have been given time to develop a consensus approach. They have not. And, the Department of Health and Human Services is now woefully late with its report.

A New Policy Is Needed Now

The time has come to move forward on this issue. Hospital capital expenses may only total in the range of seven percent of the average amount Medicare pays for a hospital stay. But, it has a significant effect on the other 93 percent on the operating side. A reasonable new policy is needed now.

Hospitals must go to the financial markets for capitalization. Eighty percent of the capital raised for the hospital industry is financed through debt. To receive loans and sell bonds, it is essential that there be more certainty concerning the future of Medicare payment for capital expenses.

Whether or not hospitals are in an expansive mode, these institutions still must maintain a physical plant and constantly update equipment to keep abreast of the times. Quality care is as dependent on a hospital's ability to raise capital as it is to have revenues sufficient to keep the doors open.

For these reasons, I decided it was necessary to put a proposal on the table to get things rolling. My proposal is a starter. It may require refinement to make appropriate law in this complex area. But, it is my intention to make Medicare capital payment the high priority issue it needs to be.

As this proposal and others are considered by the Congress, it is critical that each keep to a set of principles upon which prospective pricing and Medicare reform in general are based.

First, the traditional Medicare capital passthrough does not provide the right incentive to hospitals and is contradictory to the prospective payment system. A new methodology for capital payment should be complementary to the DRG rate system and not hospital-specific.

Second, hospitals should know how they will be paid and should be able to make reasonable decisions concerning the capital needs of their institutions within the parameters of the new methodology. An appeals process for hospitals with exceptional needs would be cumbersome and potentially regulating. But, the Congress should be open to considering some accommodation for special services.

Third, a prospective nonhospital-specific capital policy will be tough on many institutions. A transition is essential to allow institutions to adjust and restructure capitalization to comply with the new methodology. A transition cannot be so long that it undermines the new payment methodology and it should be designed so that it cannot be "gamed."

Finally, a new capital payment structure should be neutral with respect to whether hospitals are nonprofit, for-profit or public. There is no reason to favor one ownership type over another.

Broader Issues Still Need to Be Addressed

My proposed legislation has been carefully crafted to account for the principles I have laid out. There will, I am sure, be concerns expressed about the sensitivity of the approach to the many unique conditions hospitals may face in future capitalization. I will review some of these problems. It is not my intent through this measure to create disincentives to appropriate investment. I look forward to exploring with interested parties the implications of the proposal.

My proposal appropriately moves Medicare away from a cost-based passthrough for capital to a prospective payment. It has, nevertheless, its drawbacks and raises broader issues which are worth review.

Hospitals having major capital expenses during the transition may have an arbitrarily low hospital-specific ratio. The transition does not recognize any portion of the actual capital costs of a major investment made less than one year prior to the implementation of the new payment model. This could be burdensome on hospitals which have unavoidable or nondiscretionary capital expenditures that may not be easy to restructure.

The other potential problem with the base period is the assumption made that the cost of capital will reflect in the future the base period data. Both the Reagan tax reform plan and the one proposed by Senator

Bradley and Representative Gephardt would have us eliminate tax- exempt financing for private purposes. It has been estimated that this policy change would increase the cost of virtually all capital projects for nonprofit hospitals which depend on tax-exempt financing. Estimates vary, but it appears that the interest costs of projects could increase anywhere from 25 to 50 percent.

The nonprofit portion of the hospital industry is highly leveraged. Eighty percent of its capital costs are debt-financed, and the lion's share of this is from tax-exempt instruments. Tax reform is not the only factor. Currently, the nonprofits, for-profits, and public hospitals have a very uneven playing field in the area of capitalization. It is not always apparent which corporate grouping has the upper hand. The nonprofits do have tax-exempt financing, the for-profits have equity financing as well as debt available to them, and the public hospitals may have tax-exempt financing as well as public treasuries. I am not committed to having the industry move to one status under the law. However, I am convinced that investment in the industry is perverted by the differences I have outlined.

As we make new tax policy over the next months, it is important that we evaluate the affects of these differences. This consideration is not related to a Medicare capital payment policy and is one of the keys to it. The Congress should not consider tax and health policy in isolation. If it does, the hospital industry will be the worse for it and access to quality and cost-effective health care for Americans will be threatened.

Elimination of 1122 Review

The bill includes an additional provision which would delete section 1122 from Title 18. I am proposing this change in policy because the facilities regulations sanctioned under section 1122 no longer have relevance to Medicare. This provision is not needed when Medicare adopts a payment system for capital which provides the right economic incentives for hospitals. I also believe that the regulation of facilities and equipment investment under section 1122 has not been a successful cost-containment mechanism and is an impediment to the development of a competitive marketplace in the health care system.

When Medicare and the other major payers in the health care marketplace paid on a cost or cost-plus basis, regulation of facilities investment may have been a rational policy. In a price-fixed market where Medicare will use its buying power to bring costs down through prospective pricing, the need for directing hospital management through regulation makes little sense.

"A Time for Medicare Capital Transition"

Remarks on the
Floor of the United States Senate
Washington, D.C.
February 27, 1986

I am pleased today to introduce the Fair Deal Capital Payment Act of 1986, S. 2121. The bill amends Title 18 of the Social Security Act. It reforms the method that the Medicare program uses to pay hospitals for capital expenses, including such expenses as depreciation of physical plant and equipment, rental costs, interest cost on borrowed funds, and return-on-equity capital for investor-owned hospitals.

Under current law, Medicare pays an established fee for hospital services based on the average cost of treating specific illnesses. This prospective payment system (PPS) only covers hospital operating expenses. Medicare still reimburses hospitals for its share of capital expenses based on the actual allowable costs hospitals incurred. S. 2121 would incorporate the payment for hospital capital expenses into the PPS per illness rate structure.

I am joined in introducing this bill by my distinguished colleague from Indiana (Mr. Quayle). Last summer he and I introduced S. 1559, our first Medicare capital payment reform proposal. The bill we introduce today is a refinement of that original proposal. S. 2121 reflects the comments and suggestions we received on S. 1559 from experts in the health care field and hospital community. It also incorporates guidance received from the Department of Health and Human Services (HHS) testimony before a hearing of the Health Subcommittee of the Finance Committee which I chaired on November 8, 1985. I appreciate this valuable input as well as the assistance of the staff of the Finance Committee in the preparation of S. 2121.

The new Prospective Payment System adopted for Medicare represents a deal between the federal government and this nation's hospitals. For the sake of the millions of elderly and disabled Americans who depend on hospital services under Medicare, it is critical that this be a fair deal.

The Congress did not include capital expenses in the PPS three years ago because we knew more research was required to develop the best method for incorporating capital expenses. Congress included a requirement, in the Social Security amendments, that HHS produce a report with recommendations on how we should proceed. The Office of the Assistant Secretary for Policy and Evaluation at HHS did that work. Before a hearing of the Subcommittee on Health, Dr. Robert Helms, Acting Assistant Secretary for Policy and Evaluation, outlined for the Congress the conclusions of his efforts and those of his staff. The sound and reasonable proposal described by Dr. Helms is reflected in S. 2121.

The proposal that was alluded to in Dr. Helms' testimony has unfortunately not been made public and will never see the light of day. Despite the fact that the hospital community generally viewed that proposal as fair, and that the proposal was consistent with the goals of PPS, HHS turned away from its own work.

Instead, HHS has had to buckle under to the Office of Management and Budget and redesign its approach. I strongly object to the fact that a process established by Congress to develop the best health policy for incorporating capital expense into PPS has turned into an opportunity for "meat cleaver" reform. The Medicare capital payment report HHS will eventually give the Congress will simply be budget policy under the guise of health policy.

The proposal revealed in the President's Fiscal Year 1987 budget proposes a four-year transition from the current cost-based payment method to the incorporation of capital expenses in the PPS hospital fee. This proposal would be implemented by regulation and become effective on October 1, 1986. It would cut the cost of hospital capital expenses payable by Medicare by $4.2 billion over its first three years alone.

Incentives For Cost-Cutting

The purpose of PPS is to give cost-cutting incentives to hospitals, not to bankrupt them. Clearly, these regulations would have devastating effects on many hospitals. It would arbitrarily treat efficient and inefficient hospitals alike, based not on their business practices but on when the hospitals happened to finance their capital assets.

Savings to the federal budget can be obtained through Medicare capital reform. But the savings called for under the President's Fiscal Year 1987 proposal cannot be obtained without undermining the entire PPS framework. The proposal makes a mockery of the notion that the PPS would give hospitals a fair deal for quality, efficient health services.

Capital payment reform must be consistent with the goals of PPS and treat hospitals fairly. The Fair Deal Capital Payment Act of 1986, if adopted, would keep Medicare on the track toward health system reform. The bill offers the hospital community a fair transition of seven years from cost-based to prospective payment for capital expenses. It acknowledges that it will take time for hospitals to restructure their capital commitments and weights the transition in the early years to a hospital-specific proportion based on a hospital's actual capital costs.

And, on the federal side of the transition, it allows for a federal payment based on the most recent available capital expense data with a factor for updating that data through the implementation of the transition based on a market basket of Medicare capital expenditures.

The proposal's federal rate, however, while reflecting changes in the cost of capital and local construction costs, will offset interest expense with interest earned and exclude the return on equity paid to investor-owned hospitals. These changes have some policy grounding but are essentially needed to provide budget savings.

S. 2121, at the end of the transition, folds all capital expenses into the PPS rate. Thus, the operating and capital payments will be combined into one per-case amount. This payment will be sensitve to the case-mix and Medicare admissions experienced by hospitals. It will reflect the appropriate share of capital expense Medicare should be paying as a prudent buyer. It will be relatively budget neutral with most savings coming from improved business practice rather than arbitrary cuts.

S. 2121 also eliminates section 1122 of the Social Security Act. This repeals the regulation of new capital commitments which current law makes mandatory for states by October 1, 1986. The new payment methodology mandated by S. 2121 is sufficient to contain inappropriate capital expenses. So, there is no justification for proceeding with regulation by the states or the federal government of the specific capital decisions made by hospitals. This is consistent with the proposals to redirect health planning which I have cosponsored with my colleague from Indiana (Mr. Quayle).

We Need to Work Within a Budget Framework

I have guarded optimism that the budget process will proceed with appropriate speed this year. It is essential that Fiscal Year 1987 reconciliation succeed with deficit reduction where Fiscal Year 1986 reconciliation appears to have failed. We are dependent on that process as a vehicle for changes in Medicare law as regards capital payment policy. I want to put HHS on notice, however, that I will support emergency legislation to forestall the implementation through regulation of the Medicare capital proposal imbedded in the President's Fiscal Year 1987 budget. I know that many of my colleagues on the Finance Committee and the Ways and Means Committee of the House of Representatives share my concerns over these HHS regulations.

The Congress set October 1, 1986, as its deadline for adopting a new Medicare capital policy. I believe S. 2121 provides a good starting point for the development of that policy by the Congress. The process of health systems reform is never simple, but we are beginning to see the fruits of our previous labors. These achievements can only be maintained if we develop policies which are fair, as well as cost-saving.

Before I conclude, I should also point out that new Medicare policy concerning capital expenses should not be made in isolation from tax reform. The House tax bill, H.R. 3838, would prohibit advance refunding of tax-exempt bonds issued by 501(C)(3) hospitals. This provision would greatly restrict the ability of nonprofit hospitals with tax-exempt bonds to restructure their capital commitments to adjust for Medicare capital payment changes.

I plan to bring this issue to the attention of the Finance Committee when it takes up the tax reform legislation in the upcoming weeks. It is totally unfair on the one hand to place limitations on capital payments by Medicare and on the other hand to remove the flexibility of hospitals to restructure their finances.

Prescription for change

"The role of the federal government is to ensure that all Americans have the financial resources and the proper incentives to purchase appropriate quality health care in a competitive marketplace."

8

Looking Ahead:

Issues on the Health Care Horizon

Despite all the progress that has been made in redirecting the incentives in American health care, much more remains to be done. The years ahead will see prospective payment based on diagnosis extended to more parts of the health care delivery system, and eventually replaced for many Americans with a voucher which can be used to purchase comprehensive health services from competing health plans. With much greater emphasis placed on cost-sharing by consumers, catastrophic coverages will become much more important for both Medicare recipients and group insurance beneficiaries. Tax reform must also play an important role in both correcting the current disincentives and inequities in health care financing, and in meeting the long-term care and income security needs of a rapidly aging population.

8

"Designing The Next Step Of Medicare Reform"

Remarks on the
Floor of the United States Senate
Washington DC
July 24, 1985

Over the last six years I have worked with many of my colleagues in the Congress to promote health system reform through changing Medicare's payment policies. Since its inception in 1965, Medicare had paid hospitals and doctors their costs or charges. Basically, Medicare paid whatever bill it was sent by the providers — Medicare sent a blank check to the hospitals and doctors and said fill it in. This blank check payment system helped the health care system grow, but it also was inflationary and promoted excessive use of health care resources.

The purpose of health system reform has been to maintain or improve quality and access to health care of cost-based reimbursement. That is why in 1983 the Congress developed the prospective payment system for hospital inpatient care under Part A of Medicare and this year why Medicare offered voluntary vouchers to Medicare beneficiaries to join health maintenance organizations. The key to the new payment systems is the setting of prices in advance based on averages across hospitals and changing the incentives of hospitals and doctors. This strategy has worked, at least for Part A. Hospital length of stay has dropped sharply — two percent in 1983 and 5.1 percent in 1984. Hospital admissions have also fallen 0.5 percent in 1983 and four percent in 1984. The strength of these trends is pushing the cash flow problems of the Medicare Trust Fund far off into the future.

The picture is not completely rosy for Medicare. There is still work to be done. This is why I rise to introduce S. 1489, the Medicare Out-Patient Surgery Savings, Access and Quality Act. S. 1489 is part of the job we health reformers still must do for Medicare — to close all the loopholes which through paying costs or charges send the wrong economic signals to hospitals and doctors and cost Medicare and the elderly more than they should spend on health care. The bill will set a prospective rate for outpatient surgery facilities paid for Medicare beneficiaries. It also includes features to assure quality care and increased access to cost-effective health care.

The bill is only a part of a broader reform for Medicare; progress has been made on the inpatient side. This bill will set the right incentives in place on the outpatient surgery side. And, set in motion for the next stage, refinement of payment for the physician services rendered to Medicare beneficiaries.

The Importance of Outpatient Surgery

Outpatient surgery in hospitals is critical to Medicare payment reform because: First, it is one of the last areas of hospital services where Medicare pays reasonable cost, not a fixed price; second, it is rapidly becoming a big ticket item for Medicare Part B payments; and, third, it will continue to expand with improved technology and the push by providers and Peer Review Organizations (PROs) alike to encourage beneficiaries to seek alternatives to expensive inpatient hospital services.

Technological advances in medicine now make it possible to perform many surgical procedures on outpatients which previously required a hospital stay. Procedures done on outpatients now include such surgery commonly used by Medicare patients as implantation of intraocular lenses — cataract surgery, hernia repair, arthroscopy, and many more. The capability even to implant pacemakers for relatively healthy individuals in an outpatient setting is just around the corner.

Medicare currently pays for outpatient surgery done in doctor's offices, freestanding ambulatory surgical centers (ACSs) and the outpatient departments of hospitals. Because outpatient surgery is same-day and requires no overnight hospital stay, it should be less expensive than comparable inpatient surgery. But it does not always work that way, at least for surgeries performed in outpatient hospital departments.

The chief culprit is cost-based reimbursement — the blank check for the hospital outpatient services. Medicare pays reasonable cost — which, in practice, may or may not be reasonable.

For example, for one of the most common procedures for the elderly, cataract surgery, the fixed inpatient hospital DRG payment is about $1,500. For outpatients, without fixed prices, the charges average $2,200 and can go as high as $4,500. In other words the costs of the procedure are lower but the price to Medicare is higher.

To put it simply, Medicare is being ripped off — and so are its beneficiaries. Hospitals can make a lot of money because of this disparity in payment amount and they are doing it. The incentives for hospitals are even discussed publicly. In the July, 1985 issue of "Healthcare Financial Management," a hospital controller explains how his institution uses a sophisticated computer program to tell physicians which procedure ought to be performed outpatient to maximize hospital revenue.

Reform is Based on Changing Incentives

Medicare reform is based on changing incentives and it is clear that the incentive is to stack up outpatient procedure costs. This must be halted. Payment by a prospective per-case price on the inpatient side is bringing about real savings. But, these savings are in part being eaten up by the overpriced outpatient surgery which Medicare is paying.

The revenue from outpatient surgeries which hospitals save is even frequently sufficient to allow institutions to make patient deductibles and copayments and settle for simply receiving Medicare's 80 percent of the reasonable cost. This is undermining the cost sharing aspect of Part B Medicare policy.

The trends are likely to exacerbate these problems. Outpatient surgery is growing while inpatient procedures are declining.

Since 1980, inpatient surgery has declined steadily from over 16.2 million procedures to about 15.5 million. On the other hand, outpatient surgical procedures in hospitals have grown from three million to over five million during the same period.

In recent years, the dollar volume of Part B payments has increased at a rate of 20 percent per year. Freezing physician payments has held this increase down in the short-term but cannot stem the tide indefinitely because 41 percent of the increase in Part B payments was due to an increase in the volume.

PRO policy is likely to further contribute in this growth of outpatient volume. PRO's which now only monitor inpatient services have objectives to move patient services out of the hospitals. Florida's PRO, for example, in the area of cataracts has a goal to reduce the number of inpatient cataract procedures by 51,064, the number of carpel tunnel releases by 1,267 admissions, and the number of foot procedures (DRG 225) by 2,023 admissions. Similarly, the California PRO wants to shift 27,544 cataract extractions, 5,239 inguinal hernias, 11,706 endoscopy and colonoscopy procedures, and thousands of other procedures to the outpatient setting. PRO policy is appropriate, current Medicare payment policy is not.

A Clear Waste of the Public's Money

The high cost to Medicare of hospital outpatient services is not a problem of fraud or abuse, but of hospitals having the wrong economic incentives. The incentives are misdirected. Hospital managers are following accepted business practices for a cost-based system. The same cannot be said of the scam which has developed around the sale of intraocular lenses and other prostheses, some used in the outpatient setting, some not.

According to the Inspector General of Health and Human Services, intraocular lenses purchased last year by Medicare and its beneficiaries ranged in cost from $250 to $790 in hospitals and $146 to $408 for those implanted in other settings. In these prices are marketing costs which include enticements to doctors to encourage them to buy one product line over another. To be frank, these are kickbacks and include trips to the Bahamas, fancy cars, and sophisticated medical equipment.

The kickback is now okay by HHS as long as it is reported by its recipients. But, the ethics of the arrangements and the added cost to Medicare due to these marketing techniques are unconscionable.

This is a clear waste of the public's money. It is even worse when you consider that these lenses cost around $55 to make and can be purchased for as little as $99 by institutions willing to shop. With the payment structure the way it is, however, as long as Medicare is willing to pass through the cost of the lens, the hospital, ASC, or doctor has no incentive to shop around and force the manufacturers to bargain.

The Answer is Fixed Prospective Pricing

We know how to solve all these problems. The answer is fixed, prospective pricing and for all the outpatient surgery Medicare and its beneficiaries purchase, regardless of setting.

Congress began to move down this path in section 934 of the Omnibus Budget Reconciliation Act of 1981. That act authorized the Secretary of Health and Human Services to establish a set of prospective facility rates for outpatient surgery performed in ASCs. The actual rates, set in 1982, equal a fraction of the amount paid for the same procedures in hospital outpatient departments. The cataract operation I talked about earlier which costs up to $4,500 in the hospital is performed for $750 on average in the ASC, inclusive of facility and ends costs.

If Medicare can get the cataract operation for $750, then there is no reason to pay more. That is why S. 1489 is modeled on the earlier act — but goes further.

The bill would extend the ASC prospective payment approach to hospital outpatient surgery for all procedures which the Secretary approves for the ASC — 150 are currently approved. As a further refinement, S. 1489 would set a rate which is all-inclusive of the costs associated with a given procedure, including prosthetic devices and lab work. Professional fees are excluded at this point.

Currently, the prosthetic device — for example, the intraocular lens used in cataract surgery — is charged to the patient by the physician. The charges, as I have shown, have no relation to reasonable prices for the devices. The new payment methodology, including a rate with a fair market cost for the prosthetic devices, gives the incentive and flexibility to the facility to buy smart in the marketplace, not succumb to market tactics like kickbacks.

The single rate for each surgical procedure has many advantages. First, it will encourage hospitals and ASCs to provide service in a cost-effective manner. In a sense it will level the playing field between hospitals and ASCs. The hospitals have no incentive now to contain outpatient cost, the ASCs have to. Under this approach all settings will have to be efficient to compete.

Second, in a cost-based environment, costs go up but never come down. New technology that increases efficiency never seems to help lower costs. The bill requires the Secretary to review rates annually. She can adjust the rates accordingly.

In other industries, movement on the learning curve toward higher volumes and production cost brings prices down. In health care, the old reasonable cost criterion has traditionally sustained costs at their developmental levels indefinitely. The prospective payment approach for outpatient surgery will permit the rates to be adjusted.

The drawback of a fixed rate is that providers can do best by maximizing volume. Fortunately, we have not seen a rise in volume on the inpatient side where we use a fixed price per case. This constraint in use of hospital services can be attributed to a number of factors. Among these is peer review by the PROs.

PRO Reviews Would be Required

S. 1489 includes a provision which would require the Secretary to have PROs review outpatient surgical procedures. It is criticaly important that we guard against unnecessary procedures. PRO review will provide the constraint needed to control inappropriate surgery. This is a key provision of the legislation. It will help ensure quality outpatient care.

The cost of PRO review for outpatient surgery should be in the range of $37 million. When this provision of S. 1489 becomes law it is critical that this amount be appropriated. Otherwise, the PROs will not have the capability to watchdog this area. I will work to encourage my colleagues in the Senate and the House of Representatives to appropriate these funds.

ASCs have proven capable throughout the country of providing quality care at a reasonable price. It is important that these institutions be allowed to compete in this new fixed price marketplace. There have been constraints applied by states which clearly discriminate against ASCs. It is not coincidental that New York State does not include a single ASC. If these institutions meet Medicare specifications, it is time they be freed up to operate. The bill includes language which would prohibit discriminatory practices to inhibit ASC development. Strengthening the ASCs will improve beneficiary access to quality same-day surgery.

Finally, the bill would eliminate the current provision in the law waiving the copayment for procedures provided in ASCs. This provision was originally adopted to help ASCs compete with hospitals. It made sense to give an incentive for beneficiaries to use the cheaper ASC. Now that the program will be moving to a fixed price for all settings, it eliminates the purpose for this policy.

Copayment is an important part of Medicare Part B policy. Cost sharing is an additional safeguard against overuse of services and an important tool in making the consumer conscious of the cost of care. The cost-conscious consumer will buy smarter.

It is also noteworthy that the lowering of all the payments on the hospital outpatient surgery side will invariably help the beneficiary. It will mean lower copayments. The beneficiary who now receives his cataract surgery at Yale-New Haven Hospital is paying a copayment of $900 on a $4,500 charge. A prospective rate with a copayment in the $100 to $200 range will greatly benefit him.

Physician Payment Reform

S. 1489 is another step toward reforming Medicare payment. However, it does not directly address the lack of economic incentives for doctors to seek out the most cost-effective setting for patient care. It also does not reflect needed reform in how and what Medicare pays doctors for services rendered.

Under the current system of paying for surgical services, Medicare makes a payment to the surgical facility and provides separate reimbursement for the charges of all doctors involved in the case. In general, this will include the surgeon, any assistant surgeon, anesthesiologist, and radiologist or other consultants that were employed in the case. The number of doctor services varies dramatically according to the styles of practice in the facility and location where the procedure is performed.

While there are clearly valid medical reasons for some variation in the per-case cost for professional services, the current systems of payment encourage the proliferation of professional services with no necessary relation to quality of care.

It is the doctor who decides whether a procedure is necessary, when it should be performed, how it should be performed, and where it should be performed. However, he does not have the economic incentives to seek the most cost-effective service, as well as the highest quality care. The incentives must be redirected to help doctors add economics and efficiency to their decision-making for patients.

Next Step: DRG Payment to Physicians

To extend the payment reform process for facilities I have begun in S. 1489, I am drafting further legislation that will provide a single prospective payment to the doctor covering all the costs of an outpatient surgical procedure. The doctor would then be responsible to see that only those professional services expressly warranted by the case are provided. Further, the doctor would have a direct incentive to seek the facility that provides quality service at the lowest cost. The doctor who accepted a Medicare case under this arrangement would retain sufficient compensation, net of payments to other providers, only if those other providers are efficient.

The ultimate key to making this alternative payment system work is setting an appropriate all-inclusive payment. The basis for the facility payment portion is established in S. 1489. The physician payment legislation would extend that process to the establishment of an appropriate professional fee schedule for selected surgical procedures. An advisory panel of recognized experts would be established to develop the required fee schedule. Once the fee schedule was established, combining it with the prospective facility payment would create the all-inclusive payment for the procedure that would be paid to the attending physician.

This alternative physician payment system will significantly modify the incentives in the provision of surgical procedures. It will be another important step in the process of changing the incentives of health care providers to improve access to quality-and cost-effective health care.

"Medicare Vouchers, The Step Beyond DRGs"

Remarks on the Floor of
the United States Senate
Washington DC
December 18, 1985

Today I rise to introduce the Medicare Voucher Act of 1986. This bill was developed by the Department of Health and Human Services and I introduce it on the behalf of the Department.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) provides an alternative to traditional Medicare coverage. TEFRA allows Medicare beneficiaries to opt out of traditional Medicare coverage and enroll in a Health Maintenance Organization (HMO) or comparable Competitive Medical Plan (CMP). For those beneficiaries choosing a health plan, Medicare pays the health plan a premium priced at 95 percent of the average per-beneficiary cost for the area in which the health plan enrollee lives.

S. 1985 furthers this concept by broadening the types of health plans that would qualify as alternatives to traditional Medicare coverage. It is an ambitious proposal and will contribute to the process of reform my colleagues in the Congress and I started with TEFRA. I am very supportive of the underlying concept of the bill and look forward to refining the specifics of the proposal as it proceeds through the legislative process in 1986.

The ultimate objective of Medicare reform is to provide Medicare beneficiaries the same choice of health plans they had when they were employed, but with a standard set of hospital, doctor and medical benefits appropriate to elderly and disabled persons.

Medicare will get out of the costly and, to beneficiaries, confusing business of paying doctors and hospitals. Congress was never intended to be an insurance company and we prove it annually. It will be the responsibility of Congress and Medicare to assure access to quality health benefits and competitive, quality health plans.

The experience of the Twin Cities in my home state of Minnesota has shown that consumer choice of health plans can work for the elderly as well as the non-Medicare population. Experience with the Medicare HMO demonstrations and with the HMO/CMP TEFRA provisions going into effect April 1, 1985, for a fixed prepaid premium has shown that health plans can provide services and benefits to Medicare-eligible beneficiaries at least asgenerous as the traditional Medicare plan. And best of all, major headaches for the elderly covered by Medicare, confusing paperwork and arguments over "reasonable and customary charges" are gone.

The attractiveness of the health plan option is illustrated well by beneficiary enrollment data. Through November 1 of 1985, 1.2 million Medicare beneficiaries, 3.8 percent of the total of eligible beneficiaries, have enrolled in prepaid health plans. There is every sign this number will grow dramatically in 1986 and beyond.

S. 1985, the department's new proposal, would expand the variety of options available to Medicare beneficiaries. TEFRA limited the range of participating health plans by requiring plans to have physicians on staff or under contract. This requirement basically restricts insurance companies and employer-based plans from participating.

S. 1985 would open the field to health plans providing or paying for medical or hospital services under insurance policies or contracts, and includes plans sponsored by employers or employee organizations, including unions. It calls qualifying health plans, health benefits organizations" (HBOs).

The most significant feature of this bill is the removal of barriers which now prevent insurers and employer-based plans from participation in Medicare. The TEFRA requirements for participating as a health plan in Medicare would be changed by S. 1985. Plans would qualify only if they could meet a test of actuarial equivalence to Medicare's benefit package and have cost-sharing no greater than the average out-of-pocket costs under traditional Medicare. Participating plans would also have to meet a test of financial soundness, provide a minimum level of hospital care, and exclude providers barred from Medicare.

The bill would make a wider choice of benefit packages available to beneficiaries. Currently, most Medicare beneficiaries purchase "Medigap" coverage to fill in the coinsurance and deductibles they must pay under the traditional Medicare program. Too frequently they purchase more coverage than they need. S. 1985 would allow for a combined premium which would offer the beneficiary the advantage of a single insurance policy.

Advantages to Both Retiree and Payer

The Voucher Act of 1986 would be of most immediate use for Medicare beneficiaries who have health benefits as part of their retirement benefits. The premium payment would offer advantages to both the retiree and the payer, be it a pension plan or the former employer. The retiree would have the advantage of staying with the health plan he or she had before retirement, eliminating both the need to learn about Medicare's coverage rules and the necessity of first obtaining Medicare's reimbursement and then submitting a supplemental claim. The payer would achieve economies by escaping the rigidity of Medicare's benefit structure by structuring cost-sharing to produce better utilization incentives than Medicare, by conducting more effective utilization review, and by making use of preferred provider networks.

S. 1985 would also provide an incentive for more health plans to offer coverage to Medicare beneficiaries and promote more competition in the health care market by removing the restrictiveness of the TEFRA payment for HMOs and CMPs. Current law requires participating health plans to subtract the adjusted community rate (ACR) for the health plan from the average area per-capita cost (AAPCC) for all Medicare beneficiaries and commit the difference to lower beneficiary cost-sharing, more benefits or simply return it to Medicare. S. 1985, instead, would give plans control over their margin above expenses.

It would even allow plans to make cash rebates to beneficiaries of up to $500 per year. This new flexibility in the treatment of the AAPCC and ACR is important and worthy of attention.

Finally, S. 1985 establishes a single nationwide open enrollment period. This period would work much as open enrollment for the Federal Employee Health Benefits Program. It would offer plans the opportunity to market their coverage and give beneficiaries the broadest choice and opportunity to compare options.

Since employment-originated plans are only available for their own retirees, these plans would be exempted from the open enrollment period. But, the open enrollment still provides a period for comparison shopping, so the annuitant can use it to determine whether his employment-based plan does or does not meet his needs better than alternatives in the marketplace.

As with all Americans, Medicare beneficiaries will do better with choice. Yet, the elderly are often vulnerable to exploitation so great care must be taken in crafting the "rules of the game" for health plan competition under Medicare.

The Medicare Voucher Act of 1986 includes many important concepts which should be discussed and explored by the Congress. It offers beneficiaries more flexibility, promotes health plan participation in Medicare, and provides employers the opportunity to extend coverage to their retirees. It will mitigate the perception among beneficiaries that they have to have all varieties of MediGap coverage, and move the federal government to a more appropriate role in the health care marketplace.

"Due Process in Medicare Appeals"

Remarks
at a Press Conference
Washington, D.C.
August 1, 1985

As Americans, we pride ourselves on having a tradition of justice, and fairness, and due process.

But, imagine yourself as a 70-year-old retired person who has just received a bill for $1,000, for a relatively minor surgical procedure performed in your doctor's office. Upon submitting the bill for reimbursement, you find that Medicare will pay only half the charge ... and you're out $500.

Under current law, you can ask your Medicare insurance carrier to review your claim — file an appeal, if you will. But, you find yourself waiting months for completion of the review, which is done internally by the same insurance carrier which ends up paying the claim.

Then, when you get a decision denying your appeal, it's written in language that even the moles living in OMB couldn't understand. And, finally, you are told that no explanation of why your appeal was denied is required and that no further appeal beyond the insurance carrier is possible.

This kind of appeals process — or really lack of appeals process — is going on every day in our nation's Medicare system.

Under Part A — the part of Medicare which reimburses doctor visits and treatment provided outside the hospital — Medicare recipients are faced with a reimbursement appeals process which is a stacked deck ... a system which is totally inconsistent with our nation's tradition of justice, and fairness, and due process.

Part of the urgency in reforming Part B appeals has to do with the larger revolution now going or in the financing and delivery of health care in this country.

When the original appeals process was set up two years ago for doctor charges paid under Medicare, Part B payments were not that big a deal. The really big dollars were spent on hospitalization and tests and procedures which could be performed only in hospitals.

But, now, because of changing technology and strong incentives to hold down rapidly rising health care costs, more and more procedures and treatments are being performed outside of hospitals ... and are being financed under Part B of Medicare.

In the past several years, Part B payments under Medicare have been increasing at an annual rate of 20 percent. Almost half that increase has come from an upsurge in the volume of claims being filed.

And, as more health care for seniors is being financed under Part B, the volume of appeals filed with Medicare carriers has also grown dramatically. At the end of 1984, there were nearly a quarter of a million appeal cases pending, the highest number ever recorded.

To respond to growing concerns among both providers and beneficiaries, Senator Heinz, Senator Chaffee and I are today introducing legislation which would extend much greater fairness and due process to the Part B Medicare claim appeals process.

Our legislation would require full hearings by a Health and Human Services Department administrative law judge for any Part B claim between $500 and $1,000.

And, for disputes greater than $1,000, our legislation would grant beneficiaries the right to appeal the decision of the administrative law judge to the courts.

"Better Benefits at Lower Prices"

Remarks to the
American Association of Retired Persons
Washington, D.C.
February 2, 1984

I have two specific Medicare proposals I'd like to discuss with you today. One bill, the Catastrophic Expense Protection Act, restructures cost-sharing under Medicare and provides beneficiaries with catastrophic expense protection. The other, the Part B Premium Redistribution Act, reduces the Part B premium for our poor elderly and increases it for those with the ability to pay it. **Both proposals are budget neutral.**

I think you and I can agree that the major purpose of insurance — whether it's health insurance, auto insurance, or liability insurance — is to protect the individual against catastrophe. By that standard, Medicare is a lousy insurance plan.

Under current law, a Medicare patient hospitalized for five months would owe close to $15,000 from his or her own pocket. That's hardly good protection. I propose that a $2,500 annual out-of-pocket limit be provided for out-of-pocket expenditures under Medicare. Unlike the administration, which proposed catastrophic protection only under Part A, my limit would apply to both Part A and Part B services.

I don't think it's at all surprising that risk-adverse senior citizens on fixed incomes rush out to buy supplemental Medigap policies that provide protection against catastrophe. If Medicare covered catastrophic expenses, we would not see millions of dollars wasted on unnecessary Medigap insurance.

In order to pay for the catastrophic protection, I propose restructured cost-sharing arrangements under Medicare. A $350 hospital deductible would apply to every admission. A coinsurance charge of six percent of the deductible, or $21, would be required of each beneficiary for every hospital day beginning on the second day of hospitalization.

To understand what these provisions mean, it is helpful to remember that approximately two-thirds of Medicare beneficiaries purchase supplemental Medigap insurance to pay for the cost-sharing amounts that Medicare requires. Consequently, for two-thirds of the eligible population, restructured cost-sharing impacts most directly on their insurance plans, not on them as individuals.

For those individuals without supplementary coverage, the proposed restructuring will align their financial incentives with those of the hospitals. By paying $21 a day for hospitalization, the patient will have a reason to carefully consider the need for staying in the hospital any longer than is necessary.

The catastrophic cap, of course, will limit each beneficiary's liability. Thus, if the individual is hospitalized for an extended period of time, he or she will have protection against catastrophic expense.

Incentives to Medigap Plans

The impact of restructuring on those Medicare beneficiaries who purchase Medigap is even more striking. Under present law, it is very difficult for a Medigap plan to reflect its efficiency in a lower premium. If the Medigap plan gets its patients out of the hospital in 10 days rather than 15 days, there is no savings to the plan. That's because there is presently no coinsurance under Medicare until the 61st hospital day. Since there is no coinsurance on those early days, the Medigap plans incur the same liability whether the patient is hospitalized for two days or 60 days.

Likewise, the present spell-of-illness definition means that if a Medigap plan is successful in treating a patient with one hospital admission, instead of two, it can realize no savings. Under current law, the deductible is applied only on the first admission.

The restructured cost-sharing under my proposal provides a well-run, efficient, price-sensitive Medigap plan with a reward for managing patient care efficiently.

For getting a patient out of the hospital in 10 days rather than 15, a Medigap plan would save $105 in incurred costs ($21 x 5 days). Likewise, for admitting the patient once instead of twice, the Medigap plan would save the per admission deductible of $350.

These savings would be reflected in lower premiums for the efficient Medigap plan which, in turn, would attract new enrollees. Beneficiaries would benefit from lower premiums, and physicians would benefit from new business. That is exactly how a market is supposed to work. Efficient providers attract new business. The point is, we do not see much meaningful Medigap competition today precisely because cost-sharing does not encourage it.

Easing the Burden of the Poor

The second bill I introduced, the Part B Premium Redistribution Act, is designed to ease the cost burden on our poor elderly.

Beginning in January, 1985, the premium for Part B of Medicare — the nonhospital part of the Medicare program — will rise to about $16.60 a month. This monthly premium pays for only 25 percent of actual Part B costs. The remaining 75 percent is subsidized from general revenues.

My proposal would drop the premium for all Part B beneficiaries from 25 percent of program costs to 20 percent — or from $16.60 a month in 1985 to about $13.30 a month. To pay for this reduction, a modest surcharge of one percent would be applied against every Part B beneficiary's adjusted gross income. The surcharge will be limited to no more than $550 per beneficiary. This limit assures that in no case will any individual be required to pay more than about 90 percent of actual program costs. Every Part B beneficiary will, thus, be assured of at least a modest taxpayer subsidy. This will help maintain the actuarial integrity of the group and discourage individuals from dropping out of Part B altogether.

I see no reason why those senior citizens with greater income should not be paying a greater share of premium costs. It's hard for me to understand why millionaires should be getting a monthly subsidy of 75 percent — currently worth over $500 a year — from American taxpayers. Those who can afford it should be asked to pay closer to 100 percent of actual Part B premium costs — and the poor elderly should be required to pay less.

The Joint Committee on Taxation estimates that about one-half of the elderly would be affected by the proposed surcharge. Most Part B beneficiaries will, thus, end up paying less than they currently do.

Again, I should emphasize that these proposals are budget neutral. They represent reform, not budget savings. They are two vital and necessary steps in our continued progress to retrim Medicare.

"Catastrophic Coverage Under Medicare"

Remarks on the Floor
of the
U.S. Senate
Washington, D.C.
November 18, 1983

I am introducing two bills to improve the Medicare program. One bill, the Catastrophic Expense Protection Act, restructures cost-sharing under Medicare and provides beneficiaries with catastrophic expense protection.

Over the past 12 months, the Medicare program has undergone considerable reform. Those reforms have been achieved with two primary objectives in mind: to improve performance and contain costs.

The most obvious reform is the new prospective payment system for hospitals. Prospective payment fundamentally changes the economic incentives for hospitals and their physicians. The new system is only in the second month of a three-year phase-in, but the effect is already dramatic. For the first time, hospitals are aggressively pursuing management strategies that maximize efficiency.

Another major Medicare reform was included as part of the Tax Equity and Fiscal Responsibility Act. Beginning early next year, Medicare beneficiaries will have the option of using their entitlement to purchase coverage in the private sector. Private health plans that keep their patients healthy, that keep their costs down, that substitute services at the right time and the right price — these plans will be very successful in attracting beneficiaries under the new private sector option. Individual patients will be rewarded for selecting cost-effective health plans. Health providers will be rewarded for delivering cost-effective care

These reforms are good reforms — they were reforms our Medicare program desperately needed. But our task is not complete. In order to sustain the progress being made, additional measures must be enacted. For one thing, the prospective payment system must be expanded to include other providers of care, like physicians, skilled nursing facilities, home health agencies, and hospices, I expect the administration to submit a proposal on prospective payment for skilled nursing facilities before the end of the year. Passage of prospective payment for skilled nursing facilities is one of my top priorities in 1984.

Other reforms are needed. Despite our success in restructuring payment to hospitals, we failed to address the need to restructure beneficiary cost-sharing. Beneficiary cost-sharing has remained essentially unchanged since the creation of Medicare in 1965.

A restructuring of Medicare cost-sharing begins by examining what the purpose of insurance is. I believe insurance should be designed first to protect the individual against the expenses incurred by a catastrophic illness. For Medicare, beneficiary cost-sharing should therefore be designed to limit the beneficiary's liability for extraordinary expenses. Under present Medicare policy, there is no limit on the amount an individual beneficiary can expend out of pocket through Medicare cost-sharing. I believe this should be changed.

In the Catastrophic Expense Protection Act, I establish a combined Part A and B out-of-pocket expenditure unit of $2,500 per beneficiary per year. A beneficiary's liability for out-of-pocket expenditures under Medicare is thus limited to a fixed dollar amount each year. I believe catastrophic coverage is something most senior citizens want. It really should not be too surprising that risk-averse senior citizens on fixed incomes rush out to buy supplemental Medigap policies that provide protection against catastrophe. If Medicare covered catastrophic expenses, we would not see hundreds of millions of dollars wasted on unnecessary Medigap insurance.

This bill, however, does not stop with the provision of catastrophic expense protection. I also propose to restructure present hospital cost-sharing in a manner that rewards both patients and providers for the efficient use of health care services.

Under present law, Medicare beneficiaries pay a deductible upon admission to the hospital — in 1984 the Part A deductible will be $356. This deductible is applied on a spell-of-illness basis. Thus, if a patient is readmitted to the hospital within 60 days of discharge,.the patient does not pay a new deductible. Present law also requires beneficiaries to share in the cost of hospitalization, but only starting on the 61st day of hospitalization. Thus days two through 60 are free of charge to the patient.

These cost-sharing arrangements run counter to the reforms we have already enacted. Although prospective payment rewards the hospital for discharging a patient as soon as it is appropriate, present cost-sharing arrangements reward neither the patient nor the physician for similar behavior.

In my proposal, a per admission deductible of $360 would apply to every hospital admission. A coinsurance charge of eight percent of the deductible or $21, would be required of each beneficiary for every hospital day beginning on the second day of hospitalization.

Give Consumers and Providers the Same Incentives

To understand what these provisions mean, it is helpful to remember that approximately two-thirds of Medicare beneficiaries purchase supplemental Medigap insurance to pay for the cost-sharing amounts that Medicare requires. Consequently, for two-thirds of the eligible population, restructured cost-sharing impacts most directly on their insurance plans, not on them as individuals.

For those individuals without supplementary coverage, the proposed restructuring will align their financial incentives with those of the hospitals. By paying $21 a day for hospitalization, the patient will have a reason to carefully consider the need for staying in the hospital any longer than is necessary.

The catastrophic gap, of course, will limit each beneficiary's liability. Thus, if the individual is hospitalized for an extended period of time, he or she will have protection against catastrophic expense.

The impact of restructuring on those Medicare beneficiaries who purchase Medigap is even more striking. Under present law, it is very difficult for a Medigap plan to reflect its efficiency in a lower premium. If the Medigap plan gets it patients out of the hospital in 10 days rather than 15 days, there is no savings to the plan. That's because there is presently no coinsurance under Medicare until the 61st hospital day. Since there is no coinsurance on those early days, the Medigap plans incur the same liability whether the patient is hospitalized for two days or 60 days.

Likewise, the present spell-of-illness definition means that if a Medigap plan is successful in treating a patient with one hospital admission instead of two, it can realize no savings. Under current law, the deductible is applied only on the first admission.

The restructured cost-sharing under my proposal provides a well-run, efficient price-sensitive Medigap plan with a reward for managing patient care efficiently.

For getting a patient out of the hospital in 10 days rather than 15, a Medigap plan would save $105 in incurred costs ($31 x 5 days). Likewise, for admitting the patient once instead of twice, the Medigap plan would save the per-admission deductible of $350.

Those savings would be reflected in lower premiums for the efficient Medigap plan, which in turn would attract new enrollees. Beneficiaries would benefit from lower premiums and physicians would benefit from new business. That is exactly how a market is supposed to work. Efficient providers attract new busines. The point is, we do not see much meaningful Medigap completion today precisely because present cost-sharing does not encourage it.

My restructuring proposal is designed to be cost neutral. In other words, the cost of catastrophic coverage is paid for through restructured cost-sharing. I should emphasize, however, that each of these elements is vitally important — catastrophic coverage and restructured cost-sharing go hand in hand.

“The Employer’s Role In Catastrophic Coverage”

Remarks on the
Floor of the
U.S. Senate
Washington, D.C.
May 23, 1985

Today I rise to introduce the Health Equity and Fairness Act of 1985. This bill would: require employers who contribute to a health benefit plan for employees to offer at a minimum protection against catastrophic hospital and physician expenses and to require continuity of coverage if an employee, spouse, or dependents lose eligibility for membership in the employment group.

S. 1211 requires employers who have over 25 employees and who provide health benefit plans to include in those plans catastrophic coverage. The catastrophic coverage required is identical to that outlined above for a qualified health plan.

The discussion over catastrophic coverage for Americans is not new. I know that the Finance Committee worked long and hard on this issue in the late 1970s. However, there has not been much discussion of it recently, so it is important to bring it back to the front burner.

Catastrophic coverage is no panacea. It will not prevent all hardship. A major study by the National Center for Health Services Research indicates that at least a quarter of the nonelderly population, more than 50 million people, are inadequately protected against the possibility of large medical bills. Most of these people are poor although many have employer-provided insurance.

Last year at a hearing of the Health Subcommittee of the Finance Committee on indigent care, I learned that from 15 to 30 million nonelderly people are not covered by health insurance of any kind. This means that millions of Americans have some insurance coverage but it is inadequate to cover the type of events insurance is meant to guard against — major catastrophic illnesses.

There is no reason that employers who already provide health insurance or health plan coverage cannot assure employee protection against worst-case situations. This just makes sense from the standpoint of health policy and employee relations.

This bill offers great improvements in the equity and efficiency in the provision of health insurance. If we fail to address these problems today, they will present an even more difficult task in the years ahead.

"Fringe Benefits: What We Can, And Can't Afford"

Remarks to the
Employers Council on Flexible Benefits
Washington, D.C.
February 28, 1985

I'd like to be able to stand here today and paint a rosy future for employee benefits. But the fact of the matter is I can't do that, and you wouldn't believe me if I tried to.

The truth is the federal government can't afford a robust future for tax-favored employee benefits. You know why; it's the slowly ticking time bomb — commonly called the deficit.

Balancing the federal budget will require a lot of things including a restoration of balance to our tax system — so that it is fair and equitable, and so that work and saving again become as attractive as consumption and spending.

I have not supported budget freezes in the past. Even the so-called across-the-board freezes. I've always thought that spending freezes are unfair, because it really isn't across-the-board at all. It only freezes those people who get their government subsidy through spending. It doesn't get to the Americans whose subsidies are hidden in the tax code.

For instance, is it fair to freeze spending on food stamps, while we continue the deduction for corporate lunches unchecked? Is it fair to freeze mass transit subsidies, while the number of corporations claiming accelerated depreciation for corporate jets and luxury autos continues to climb? What about your personal computer, the newest fringe benefit? Shall we let that little tax expenditure boom, while we freeze the educational grants for the disadvantaged? Is it fair to freeze health care for our veterans, while employees of some major corporation negotiate for a first-dollar dental plan at taxpayer expense?

The dollars involved in these tax expenditures are not small. The Joint Committee on Taxation counts 106 items in the tax code like the home mortgage interest deduction, the deduction for state and local taxes, the exclusion of employer provided fringe benefits, the energy credits and the capital gains rates.

In 1984, those tax expenditures cost us $321 billion. In other words, federal government revenues would have been larger by $321 billion, if we did not allow these 106 credits, deductions and exclusions. In Fiscal Year 1985, they will cost $365 billion, an increase of $44 billion in one year. That's more than the increase the President is proposing for defense. Tax expenditures will go up to $404 billion in 1986, another $39 billion increase; up $83 billion in two years. That's more than the cost of Medicare.

So, if our problem is the deficit — the gap between revenues and spending — I don't think it is fair to slap a freeze on one side while leaving the subsidies to go unchecked on the others.

Constraint is needed in the employee benefit area. I want to assure you, though, I don't use the Treasury Reform proposal's definition of constraint! I agree with Senator Packwood that there is an overall societal good accomplished by using "tax spending" to encourage the purchase of employee benefits. And I am all for flexibility. Allowing the employee to choose his benefits is fundamentally fair. Employees are individuals and they have individual needs that can be better met with a flexible benefit plan.

Legislation Has Six Goals

Against this backdrop of crushing deficits the parameters of the debate on employee benefits have been set. On one hand, you have the Treasury Department's Tax Reform proposal, which repeals statutory benefits except modified retirement and capped health care benefits. On the other hand, is the Chairman of the Finance Committee, Senator Packwood, who has vocally supported the status quo.

I intend to introduce legislation that recognizes the realities of our current economic condition, and addresses the concerns of both ends of the employee benefit spectrum. This legislation will:

1) Constrain the growth of employee benefits excepting retirement benefits.

2) Recognize the importance of providing incentives so that the private sector will make available benefits which government may otherwise be called on to provide.

3) Aid the goal of health care cost-containment by encouraging movement to alternatives other than first-dollar coverage.

4) Increase the potential for flexibility by adding more employee benefit options.

5) Add equity by allowing the self-employed to have access to the exclusion, to the same degree as employees.

6) Foster simplicity by having only one nondiscrimination rule apply.

It sounds too good to be true, yet I know that initial resistance to the idea may come from all sides. Thus, those employers who don't like it, or find it unworkable for their situation, can continue to use current law.

Essentially, then, the legislation will propose an alternative to current law. If the employer opted in, current law would not apply. All employee benefits, except retirement, dependent care and Section 132 benefits, would be capped. Benefits provided over the cap would be subject to tax.

Employers could provide any benefits they desired, including benefits currently taxable and a taxable cash-out would be allowed. This means complete flexibility; items could be offered such as group auto, extra life insurance, etc.

The advantages to this approach are numerous. The cap will check the growth of tax-favored benefits. The growth of benefits has been explosive. The U.S. Chamber estimates that benefits have grown 1,077 percent since 1951. This legislation only caps a portion of the items considered employee benefits, but it is a step in the right direction. Although capped, the proposal provides room for employee choice in selecting benefits.

The flexibility inherent in choice allows the consumer to tailor the kind of benefits provided and the amount provided to individual taste and needs. The bureaucracy cannot know whether an employee would consider himself better off with a little less health care and a little more life insurance. Nor does the paternalistic employer know what's best for all his employees.

Inequities are Evident

A complete revamping of our approach to fringe benefits, such as just described, will take time to percolate. In the meantime, it is important to bring equity to your current arrangement for subsidizing private health insurance coverage.

Let me illustrate the current inequity. A worker at Chrysler, whatever he or she may earn, enjoys health coverage which costs upwards of $6,000 per year. This worker receives this premium tax free, he gets a complete exclusion.

A self-employed breadwinner will have to pay between $2,000 and $2,500 a year in premiums to provide his family with even modest health coverage. At the same time, this self-employed breadwinner will only get to deduct that portion of the premium payment and other health expenses which exceed 5 percent of his adjusted gross income. In many cases, this means he will pay taxes on all or part of his premiums, while the Chrysler workers received a $6,000 value, free.

Employment status is no reason to provide a tax exclusion to one individual and not another. It seems to me, since we have determined it is good public policy to encourage private health coverage through tax policy, then everyone, regardless of employment status, should be eligible for the same treatment by the IRS.

I just mentioned how I feel about the exclusion for health benefits. I have always supported the tax cap on health premiums. Because I believe that it is essential we design a tax policy which promotes good health policy — the "buying right" by individuals of cost-effective health plans will be promoted by limiting the subsidy for health premiums.

And, as you have heard today, I now advocate a total cap concept for fringe benefits. But to bring some equity to our health tax policy and to remain consistent to this total cap concept, I plan also to introduce separate legislation to provide a capped exclusion to those who are now eligible for the exclusion through their employment. My proposal is to provide a ceiling, identical to my total cap proposal. This proposal would, thus, be compatible with the eventual move to a total cap.

In conclusion, I support the concept of flexibility in employee benefits, and I believe in the use of "tax spending" as an incentive for the private sector to provide for social good. Yet concerns about the debt we are incurring and the unchecked growth of health costs compel that alternatives to the status quo be examined. I am convinced that my alternative is workable and, as the legislation process unfolds, I would appreciate your input and, hopefully, your support.

"A Price-Sensitive Health Care System"

Remarks to the
Association of Private Pension and Welfare Plans
Washington, D.C.
May 1, 1984

I could hardly talk about employer-provided health benefits without mentioning cafeteria plans.

From a health policy standpoint, cafeteria plans have two attractions. First, they allow employers to offer a smorgasbord of benefits. If an employee buys a less expensive health plan, he or she will have additional benefit dollars to spend elsewhere. That kind of choice helps stimulate price competition among health care providers.

Second, cafeteria plans allow employers to set up reimbursement accounts. Reimbursement accounts have made it easier for many employers to move away from first-dollar coverage. Consider, for example, an employer who has a $300-a-month, first-dollar health plan for employees. Under Section 125, the employer scales back the benefits to include coinsurance and deductibles at a total premium cost of $200 a month. The extra hundred dollars a month is then placed into a reimbursement account. That account is used to pay the coinsurance and deductibles with tax-free dollars. If there is a balance left in the account at the end of the year, the employee can take it as taxable cash.

In this example, we achieve both health policy and tax policy objectives. From a health policy standpoint, we have introduced patient cost-sharing. From a tax policy standpoint, we have increased revenues by taxing the balance in the reimbursement account returned to the employee at the end of the year.

Consider, however, an employer that presently offers a health benefits plan with coinsurance and deductibles. This employer decides to offer its employees a reimbursement account. In this manner, employees can spend tax-free dollars on coinsurance and deductibles rather than taxable dollars, as they did previously. In this case, we have further insulated the individual from the cost of health care, and we have lost tax revenue.

It's not too hard to see why the February press release from the IRS has generated so much concern. If reimbursement account balances are made forfeitable, their attraction to employees will diminish considerably. That will make it more difficult for employers to persuade employees to back away from first-dollar coverage.

However, without any restrictions, the reimbursement account notion could be seriously abused. It's not difficult to imagine a situation in which most workers paid all their deductibles and coinsurance with **tax-free** dollars. Reimbursement accounts could grow into an even bigger tax subsidized health program than employer-provided health insurance premiums.

The best approach to dealing with these concerns is to enact a tax cap on the amount an employer can contribute to an employee's health plan.

For example, we could say that employers can contribute up to $300 a month to an employee's health plan without tax liability to the employee. That $300 cap would include contributions made both to premiums and to reimbursement accounts. That way, there would be an upper limit on the extent to which taxpayers would subsidize any employer-provided health benefits.

With a tax cap in place, forfeitability is not an issue. If you are serious in your belief that reimbursement accounts make good health policy sense, you should support efforts to enact a tax cap.

"Health Care Reform Through Tax Reform"

Remarks
on the Floor of the U.S. Senate
Washington, D.C.
May 23, 1985

Soon after I came to the Senate, I introduced the Health Incentives Reform Act of 1979 (HIRA). This act amended the tax code, as does this bill, and placed a limit on the tax exclusion allowed individuals for employer-contributed health benefit plan premiums. The bill made good sense in terms of tax and health policy.

It was introduced at a time when the Carter administration was looking to regulatory budget controls to contain spiraling health care costs. The measure offered an alternative approach to cost- containment, one designed to provide consumer choice incentives in the health care marketplace.

The Congress rejected the Carter cost-containment approach to health systems reform. And, in the years since then, the concept of reform of the health care system through the marketplace rather than the bureaucracy has become accepted. The tax cap proposed in HIRA became an accepted centerpiece of Reagan administration policy and has appeared as part of every budget message to Congress over the last four years. Mr. Dole, the distinguished Majority Leader and former chairman of the Senate Finance Committee, also advocated this approach. In the 98th Congress he introduced S.640, his version of the tax cap approach.

It appeared to me that the momentum was beginning to build this year to acceptance of the tax cap notion. With the broader discussion of a tax reform, based upon concepts of fairness and equity, I expected the groundwork that had been laid for the tax cap to bear fruit. I was particularlv encouraged when the first administration tax simplification package, so-called "Treasury I," included the tax cap. At the same time, the Democratic, Bradley-Gephardt version of tax simplification also put forth the cap notion.

I have, therefore, been dismayed in recent days to read that "Treasury II," which the President will announce next week, will not only drop the tax cap, but also will include a provision that makes taxable for individuals the employer contribution for health insurance plans of the first $25 per month for family coverage and the first $10 per month for individual coverage.

Lousy Health Policy

I am outraged by this approach. I did not mince my words about it in a note I sent to the Secretary of the Treasury in which I pointed out the new proposal was "regressive tax policy and just plain lousy health policy." The taxation of health premiums at the low end would take a bit out of the modest plans as well as the extravagant ones, and do nothing to encourage more prudent health insurance policy.

As the President prepares his discussion of tax reform next week, I hope the administration will reconsider its position on taxing employer-contributed health insurance coverage.

The tax expenditure for health insurance premiums is projected to grow from $17 billion last year to $34 billion in 1989. In the current budgetary environment, when we are going to great lengths to trim the spending side, it is intolerable to allow this hemorrhage of revenues.

More important, in the atmosphere of budgetary constraint, it is just plain unfair to allow an open-ended subsidy for health care while reducing and curtailing many good programs on the spending side for health programs.

Moreover, the original intent of the tax exclusion for employer contributors to health insurance has not been achieved. In 1954, Congress enacted Section 106 of the Internal Revenue code which provided the tax exclusion for employer-contributed health insurance premiums. The intent of this amendment was to provide "a uniform rule of exclusion applicable to amounts received by an employee under a qualified employer's accident or health plan." This goal of uniformity has simply not been achieved. To the contrary, the outcome of the policy change has been uneven treatment, no matter how one views it.

In 1983, for example, the average tax benefit for all households with incomes between $10,000 and $15,000 per year was $83 or .65 percent of income. But for households with incomes in the $50,000 - $100,000 range, the tax benefit was $622 or .98 percent of income.

Fairness Issue Needs to Be Addressed

This uneven distributional pattern is the result of three underlying factors: higher income households are more likely to receive an employee contribution, they tend to receive a larger contribution, and under a progressive income tax system they get a larger tax benefit per dollar of contribution.

If we look at payment for employee benefits on an industry-by-industry basis for employer-paid life insurance premiums, death benefits, and hospital surgical and major medical insurance premiums, one again finds a pattern of unevenness. These tax-free benefits which average seven percent of payroll for all industries (manufacturing and non-manufacturing), show considerble variation. If you are in a heavy manufacturing industry, your average health-life-death tax-free fringe can be as high as 11 percent of payroll; but if you happen to be employed in a trade or service industry, the fringe as a percent of wages and salaries is likely to be half that.

But, the uniformity question is only a part of the story. The question of the fairness of this tax policy is also starkly apparent.

There are some people that receive no tax-favored employee contributions because they are either self-employed or unemployed. At the same time, a steel worker who, if he or she works eight-hour days for 50 weeks of the year, makes about $40,000 per year and then also receives about $4,000 in tax-free employer-paid fringes for health, life, and death benefits. Now compare that to the self-employed or unemployed person who has to pay for all this insurance out of after-tax dollars. If that person is, say, a single parent with a child living in Minnesota, he or she (and nine times out of ten it is a woman) is earning the average U.S. wage for nonagricultural workers, about $11,200 per year. With that one child, the average cost of just health premiums is likely to be about $1,500 per year. That not only works out to a higher percentage of wage and salary income going to health premiums than for the steelworker, but for our self-employed or unemployed parent, it's all out of after-tax dollars.

There is of course no doubt in your minds or mine that the example of the tax free $4,000 to the steelworker and the zero dollar for the single parent is an especially dramatic one. But, in fact, the data suggest that the illustration is representative. Evidence provided by the Congressional Budget Office data is revealing. If you are part of a household that earns between the $0 to $10,000 per year, you have only a 13 percent chance of receiving an employer contribution to a health plan. Only 13 percent! If you are in the $10,000-$15,000 household, you now have a chance of about one-in-three. and so it goes, until you reach the $50,000-$100,000 household, where 73 percent receive these tax subsidies.

Health Care Can't Be a 'Free Lunch'

And, finally, what about **efficiency?** What about the effects on health policy of this open-ended subsidy? There is no way to get around the clear logic: when the tax system gives a choice between a dollar of compensation that is fully taxed and one that is subsidized through an employer-paid exclusion, the result is inevitable. There is over-consumption and over-production of the subsidized service. The history of the expansion of demand for health care follows this point.

Is is well illustrated by numerous examples of large companies which give first-dollar coverage health benefit plans. In its Spring, 1985, report to its employees this year, Bethlehem Steel reported that in eight geographic regions where large numbers of Bethlehem employees and their families live and work, these employees use health care with greater frequency and at a higher cost than the average of services provided by area hospitals. In particular,

— actual days for hospital care for Bethlehem employees and their dependents ranged from 11 percent to 88 percent above the region's norms; and

— excessive admissions and/or excessive lengths of stay problems were apparent in all eight locations and for most diagnostic services. That is, the Bethlehem employees are admitted to hospitals more frequently and stay longer than the rest of the population.

Should one conclude that Bethlehem is, simply, a sickly place to work? No, if everyone thinks that health care is a "free lunch," they have every incentive to use the system. The major corporations are beginning to realize this fact and have dramatically increased their cost-sharing. However, the Fords and Chryslers are still providing first-dollar coverage. The adoption of the tax cap would help all companies in this process of placing more of the responsibility on the employee.

Simply put, the individual will not have an incentive to buy smart in the health care marketplace or in choosing between health insurance and alternative health plans like health maintenance organizations until he has to pay part of the bill.

What the average American spends his/her after-tax dollars on is quite startling. In the $20,000-$30,000 a year income bracket, for example, we spend 27.8 percent of our take-home pay on housing, 21.7 percent on transportation, and 18.3 percent on food. More than two-thirds of our income goes to the roof over our head, the food on our table and the car in the garage. So where, then, is one of the most basic needs — health? The average American in the $20,000-$30,000 a year income bracket spends just 3.9 cents out of every after-tax dollar on medical expenses, which is less than they spend on entertainment — 4.5 cents per dollar. The well-intentioned subsidies send a clear but false message to consumers and providers that health in America is largely free, unlimited, and should be provided and used without bound.

S. 1211 would exempt from taxation the first $100 and $250 a month spent on individual and family coverage, respectively. This tax cap would primarily affect families with incomes in excess of $30,000. In contrast, the proposal to tax the first $25 per month in employer benefits for workers with family coverage would increase taxes for 30 percent of the families earning between $10,000 and $20,000. My tax cap proposal would not have increased taxes for those earning below $10,000 a year and would only increase taxes for five percent of those families with incomes between $10,000 and $20,000.

Health Insurance Premium Deduction

The inequity I describe between the employed who are eligible for the tax exclusion for employer paid health benefit plan premiums and the self-employed and unemployed must be ended. This bill would remove this inequity by allowing the self-employed and unemployed to deduct from gross income the cost of a qualified health benefits plan up to the cap limit. The provision would apply to them whether they file a long form or use the standard deduction. So it places them on an equal footing.

This measure goes further than the one made by my colleague from Iowa, Mr. Grassley. He has introduced a bill S.419, which would allow deduction of one-half of the expenses paid by a self-employed taxpayer for individual health insurance premiums. His bill partially restores the equity which he points out was created under TEFRA when the deduction for one-half the annual cost of health premiums up to $150 was dropped from the law.

Mr. Grassley's approach is appropriate. However, the tax cap gives us the limit we need to extend the equivalent of the tax exclusion to everyone.

S.1211 will be good for the farmers, the business people who are self-employed and unincorporated—and will provide help to the unemployed. It will not assure that everyone has health coverage, but it is an important step to expand access to health insurance.

S.1211 will have a positive effect on the marketplace for health plans. First, it requires that all qualified health plans provide costs of physician and hospital services after $3,500 of out-of-pocket expenses by a plan subscriber. This would provide an important safety net which is not now available to many. Second, it allows qualifying plans to offer services from a selected set of health care providers.

The bill includes protection to avoid abuses and makes it clear that plans would have to cover medical emergencies where they occur. But, it does allow preferred provider organizations, health maintenance organizations and other kinds of plans to present as options to the plan consumers. Finally, there is no restriction on copayments, coinsurance, or deductibles, so plans will likely include cost-sharing, an important component of controlling health care cost.

This bill offers great improvements in the equity and efficiency in the provision of health insurance. If we fail to address these problems today, they will present an even more difficult task in the years ahead.

"Meeting The Long-Term Care Challenge"

Remarks to the
Health Insurance Association of America
Washington, D.C.
December 4, 1984

Thank you for the opportunity to be here. Some of the things I'll say will suggest some answers, but I want to talk a little about the environment because you come to Washington only because it's convenient. You have an office here. But the reality today is that the answers to the problems that brought you to Washington are not in Washington.

I have no magic numbers for you. But, I'm going to start out wearing my hat as Chairman of the Intergovernmental Relations Subcommittee and remind you that in December, 1981, Ronald Reagan met four or five reporters who asked him if he had a vision of New Federalism because he'd been talking about sending responsibilities back to the states. And he made a famous remark which wasn't original with him, but the application was. He said, "Well, people can vote with their feet." If you can't get health care in New York, you know, go to Arizona.

Well, the outcry from that statement helped everybody at OMB and every place else run off and design a new federalism. And Ronald Reagan's version of New Federalism came in the State of the Union message in January 1982, about six weeks later.

The key part of that New Federalism was what are we going to do with Medicaid, food stamps, and welfare?

I tried at the time to step back from the specific programs to see — they were talking swaps, you know — if the federal government will take over Medicaid if the states take over food stamps and AFDC. We never could come to an agreement on that, because that didn't get to the heart of the problem.

Income Security Needs Definition

The heart of the problem was that it's too simplistic an approach to the problem. What is welfare? It is an element of our income security system. What is a definition of income security? Income security is economic access to a range of goods and services that provides subsistence.

Income security is economic access to a range of goods and services that provide a minimum subsistence standard of living. How do Americans achieve income security? We do it in three ways. For most of us, it's called what we're doing here today, earning, and what we do with it, saving. The principal elements of income security are earnings and our savings. It's our salaries and our savings accounts, dividends, investment income, our insurance policies. And, for many Americans, earnings and savings are supplemented by social insurance that includes Social Security, unemployment comp, worker's comp, and so forth.

Then you come to the third component of our income security system, public assistance: AFDC, Medicaid, food stamps, housing subsidies, and on and on and on. Those are the means-tested entitlements.

Income security, therefore, comes in three parts: Earnings and savings, social insurance, and public assistance. Now, let's suppose the national government wanted to have an income security policy which I want to say we don't have. Let's say we wanted to have some kind of unified sense of what we were trying to accomplish.

There's one very clear objective for that policy that we all have to agree to. To the maximum extent possible and for as many Americans as possible, income security should be achieved through earnings and savings. You all just assumed that was the case. You assumed we had a policy that put that first. A lot of people don't. That's our first principle. Maximize earnings and savings. That's our goal.

You can't measure the success of an overall system by the size of the Social Security check or the numbers eligible for food stamps. That, in our society, is not success. Nor is the failure to meet a certain-sized Social Security check or a certain number of food stamps the measure of failure, although, we are certainly led to believe under Reagonomics that this was a sign of failure.

Our policy should be designed to get people back into the economic mainstream so they are in charge of their own income security. To the extent long-term care is a part of this income security system, I would argue that security is fundamental to understanding long-term care. I learned two things from applying this general perspective:

First, as to policy, income security is a federal responsibility; it should not be given to the states. When unemployment reaches 10.8 percent, as it did on the date I ran for reelection in 1982, nobody blames the mayors. They blame the senator and the President and expect policy from them to correct it.

Nobody would seriously propose that we return Social Security to the states.

So if the first two parts of income security are a federal responsibility, then I think that the third part — public assistance — should also be a federal responsibility. You cannot just unhitch long-term care from the income security system and send it to the states.

We're Moving in the Wrong Direction

The second thing I learned by applying this little income security paradigm to long-term care is that the current system is moving in the wrong direction. All the incentives are to move into the public assistance mode. There is no part of the policy which tries to encourage people to finance long-term care with their earnings and savings. In fact, the system says quite the reverse. It says dispose of your assets, go to an institution, and the public will pay your way with the system.

My grandmother went into a nursing home in 1968. She was surprised that everybody else there was on Medicaid. So, she came to me, a struggling lawyer, and asked, "Why can't you figure out some way for me to be on Medicaid, too? Why am I wasting assets that I want to leave to your mother and you, when everybody else here has got it coming from somebody else?" That's just what we have lived with in our society for a long time.

The Medicaid money is all going to the aged, blind, and disabled, and it's not getting to AFDC mothers and those one-fourth or one-third of children who are being born into poverty. No, it's going to hold the grandmas and other folks in nursing homes.

When you look out there over the horizon, you have to scratch your economic heads and say, "Who has been in charge of this system?

Everything is cost-based reimbursement of some kind, and none of it makes much sense.''

So, if long-term care is to be successful as an income-security policy — and that's what I believe it is — it must be designed to move people out of the dependence and back into the earnings and savings stream where the resources and the decisions can be made on their own.

So the question then that you're going to have to help me with, because I'm not here with the answer, is how do we break out of the pattern and move in the other direction? I didn't come prepared with an answer to that question.

Maybe we need to build a social insurance bridge between all of us in the public-assistance Medicaid system, so we can get people to make their way back into the system. I know that people who need support services do not like their choices. I know they're looking for new patterns, programs that will maximize their independence, keep them out of the institutions, allow them to hold onto their assets. But I also know the current financing system discourages all but a few from buying insurance programs or taking other steps on their own.

I would support using the reform model that we use in the acute care area — consumer choice — using government money where it's appropriate for Medicare and Medicaid, use of private competitive health plans, long-term health plans, or whatever you want to call them, but not using more government programs.

I have a hard time with the people who want to put more money into home health. I'm saying, ''Look, all we're doing is wasting money.'' When you've got a federal program telling you the only way you can get this benefit is by going into this particular institution, then where is the consumer choice? And that's what we do, we've got a home health plan that's structured like this, and if you want to get home health, this is how you get it. We've got a nursing home plan, and if you go to a Skilled Nursing Facility, you get this, and if you go to an Intermediate Care Facility, you get that, you go here, you get that. All the states and everybody are out there trying to juggle their programs around so they can qualify for this, that and the other thing. And the people are left out in the cold. The person who needs something has no choice. The choices are being made by a federal program or a federal tax policy that says only if you do it this way do good things happen to you.

A Major Issue Facing the Country

So, insurance has changed. And the notion of insurance has changed not because we wanted it to change, not because we don't need you, but because we really didn't know what it was doing in its effort to have today and send the bill on to our kids. And that's where I want to end.

Maybe it's because this is the year of my fiftieth birthday, maybe it's because my four sons are marching out of teenage into adult adolescence, but I have developed some strong feelings about what we are doing to the next generation.

The answer is not in cutting spending out of one-fourth of the budget. The answer is not in cutting taxes. It's in finding a better way to do things. I can't think of a bigger challenge than long-term care. You know all the statistics about how everybody is getting older, how we're using precious health dollars to buy nutrition and a lot of other things, and we're wasting an awful lot of money in that system.

So if you want the waste to end, you want more of us who can listen to you even when we disagree with you in some way. If you want us to be responsive to the needs that you sense, then I'm just here at this part of your program to beg you to take this on as a major issue that faces this country.

"Safeguards In Long-Term Care Insurance"

Remarks on the
Floor of the United States Senate
Washington, D.C.
June 27, 1985

I am pleased to join today with my distinguished colleague from Rhode Island, Mr. Chaffee, in introducing the Long-Term Care Insurance Promotion and Prevention Act. This act is comparable to H.R. 2293, introduced in the House of Representatives by Mr. Wyden of Oregon. I congratulate Representative Wyden on his interest in the area of long-term care policy and look forward to working with him and my colleague in this body, Senator Chafee, in further developing the concepts in this legislation.

I have been involved since I came to the Senate in the process of reforming this nation's health care system. This process began in the late 1970's when this nation was experiencing rampant inflation in the cost of medical care. Since that time, the Congress and the executive branch have made great strides in restructuring the economic incentives in the health care marketplace. These efforts have aided us in containing the cost of medical care by making providers more efficient and consumers more sensitive to the cost of services.

Health systems reform has focused from the federal level at changing incentives through a new payment scheme for Medicare. In the private sector, health systems reform has been marked by employers and insurers increasing cost-sharing for those they cover and promoting the use of more cost-effective alternative delivery and financing mechanisms such as HMOs. These activities have focused primarily on the acute care side of the health system. This is where Medicare spends most of its dollars, and is the portion of the system where the problem and needs are well-defined.

On the long-term care side, the appropriate directions for health system reform are less clear. Definition of the problems, much less approaches to the solutions, are more difficult to pin down than on the acute care side. I am convinced the principles of consumer choice and competition are relevant to long-term care, but we are still learning about their applications.

This statement and S. 1378, which we are introducing today, are far from the last word on the subject. Each is more like the first word. Both provide, however, a vehicle to begin a discussion on the means to best assure access for Americans to high quality long-term care at a reasonable cost.

Misconceptions About Medicare Are Evident

Any discussions of long-term care will necessarily focus on the elderly. It is the elderly who are at risk of chronic illness or major impairments in function which require nursing home or home-based services. Despite the risk, the elderly today have little or no private insurance protection against the cost of such illness or impairment.

Many people think Medicare will cover their long-term care needs. A survey by the American Association of Retired Persons indicates that 80 percent of the elderly believe Medicare covers all their health care needs, acute and long term. The fact is that Medicare covers only up to 100 days in nursing home care and on average pays only 23 home health visits per year. This barely qualifies as long-term care by any definition.

The elderly who require long-term care must spend their private savings and income if they require nursing home or home health services. If they are not already poor, they can eventually spend-down their resources and qualify for Medicaid. More than a third of the elderly who need long-term care will do just that.

This povertization of the elderly is unconscionable. I frequently hear tragic stories about spouses who must give up everything so that an institutionalized wife or husband can go on Medicaid.

This situation is graphically illustrated by Andrew Stein, Manhattan Borough president, in "Medicare's Broken Promise," an article recently published in the New York Times Sunday Magazine. He tells the story of Sarah S. Dorfman whose husband, Joseph, is suffering from Alzheimer's disease. Mrs. Dorfman is no longer able to care for her husband of 52 years, formerly an eminent economist at Columbia University. The Dorfmans saved all their lives, but Mr. Dorfman's illness and his need for constant skilled care is draining their modest resources.

Mrs. Dorfman is in the process of povertizing herself so she can keep her husband in a nursing home. To qualify for Medicaid she must "spend down." The tragedy is clear. As Mrs. Dorfman says, "I look fear and dread in the face every day, living with this illness. Must I lose my financial independence and security as well?"

On the other hand, it is not uncommon, as Mr. Stein also points out, for families to plan for the divestment of a parent or grandparent's assets so they will qualify for Medicaid. A recent Business Week article even laid out a strategy for such divestment.

An Inappropriate Use of Medicaid

Whether the elderly are forced into poverty to receive government assistance for long-term care or families shelter assets to achieve eligibility for their loved ones, this is an inappropriate use of Medicaid. This is not only costing the taxpayer money, but taking scarce public resources for Medicaid which should be financing health services, both acute and long-term, for the truly indigent.

Virtually half of the $38 billion the federal and state governments spend annually for Medicaid goes to pay for nursing home care. In 1972, 32 percent of Medicaid expenditures went to nursing home care. By 1984, 46 percent of Medicaid expenditures went to pay for nursing home care and if home health and other related services are added, then 57 percent of program costs went to long-term care last year.

A partial solution to this problem is the development of private long-term care insurance which could protect individuals and families against the potential financial calamity of long-term care. Long-term care insurance would allow for people to secure their futures and allow private financing for the care of many who now are compelled to go on the dole.

The insurance industry has been reluctant to market long-term care insurance in the past. It shied away from this area because of the perceived difficulties of designing affordable and salable benefits packages and concern over adverse selection. Today, they are reexamining its potential.

With the dynamic growth in America's elderly population the market is there for health insurance broadened beyond Medicare's acute care services and Medigap supplemental coverage to include long-term care protection. If we were truly wise, we would include health promotion and disease prevention benefits as well.

Long-term care coverage, data indicate, would provide a limited risk to the insurance industry. Only five percent of the elderly will ever require these services. The experience of that group who will require nursing home or intensive home-based care is also limited. Of the 1.3 million elderly in nursing homes today, 38 to 55 percent are likely to be shortstayers — either recover or die within 90 days of illness or impairment; 10 percent will probably stay in a nursing home over three years; and just four percent will stay over five years. Clearly, there are distinct, estimatable periods of need for which insurance coverage could reasonably be developed.

A few insurance companies have already begun to experiment with long-term care plans. Fireman's Fund American Life Insurance Co. offers one of the most comprehensive policies in a number of states. Its policy covers up to four years of confinement in a nursing home — paying $60 a day — or home care — paying up to $30 a day. There are certain restrictions, but the plan appears to be affordable and illustrates that a reasonable package can be designed. Further, I understand that the Prudential is even developing a plan for marketing to AARP's 18 million members.

The companies are entering the market cautiously. It is in the public interest for the federal government to promote this activity. The Long-Term Care Insurance Promotion and Protection Act can be part of a larger set of policies to assist in the development of interest in a long-term care insurance.

The act would establish a voluntary federal certification program for long-term care insurance plans comparable to the voluntary program in place for Medigap policies. The Secretary would develop standards for certification in cooperation with the insurance industry, seniors groups, long-term care providers, and other interested parties.

Model Standards Would Be Used

The certification process would allow insurers to obtain the federal government's seal of approval for their policies. The certification process will be strictly voluntary. It is not meant to regulate. Its purpose is to stimulate public confidence and understanding in the products developed by the insurance industry.

The model standards used in the certification process will also be helpful to states which decide to regulate long-term care insurance. Many states are now using the guidelines they have developed for regulating Medigap policies in setting criteria for long-term insurance. These regulations are unnecessarily restrictive and the development of federal minimum standards will help differentiate Medigap and long-term care insurance.

As long-term care insurance begins to catch on, the unscrupulous will be tempted to market poorly defined or fraudulent plans. Such abuse led to the development of federal certification of Medigap policies. It is important to guard against this danger for long-term care insurance and to provide assurance that the products offered to the public are financially sound. The act includes criminal penalties for companies and agents who misrepresent themselves and their policies.

The existence of a federal seal of approval for long-term care policies alone will not create a new industry. Insurance companies will remain wary of the area. The public will have to be educated about their needs and of the insurance opportunities to resolve them. Other incentives, preferably economic, must be developed. It is my intent to use the discussion surrounding this bill to pursue the development of these incentives. It is critical to the success of reform of long-term care that insurance mechanisms become a realistic alternative to the povertization of the elderly.

"A Rational Medical Malpractice System"

Remarks on the
Floor of the United States Senate
Washington, D.C.
December 17, 1985

Today I am introducing the Medical Offer and Recovery Act along with my distinguished colleague, the Senator from Missouri (Mr. Danforth). I am introducing this bill as a courtesy to my distinguished House colleagues, Representatives Moore and Gephardt. It is a companion bill to H.R. 3084 which would propose to reform this country's medical malpractice system. This measure includes refinements to the proposal which they introduced last year.

My House colleagues spent considerable time and effort developing this proposal and it is a serious contribution to a much needed national debate. It is the one major measure that provides an alternative to state tort reform, and therefore deserves examination and scrutiny in the Senate along with another measure, S.1804, introduced by my distinguished Senate colleague, Orrin Hatch. His proposal is authored by the American Medical Association.

There is no question that the funding of malpractice insurance is reaching a crisis point. I was reading an article in the Mankato Free Press from my own state of Minnesota, about a young woman named Ann McCall, who was looking forward to having the doctor who had delivered her 21 years before also deliver her new baby. Just two weeks before the anticipated delivery date, her doctor informed her that he was turning over his obstetric practice to another doctor because he could no longer afford the escalating cost of his malpractice insurance premiums. Zachary McCall was born to Ann and Pat McCall with the assistance of a physician they had known for only two weeks.

This story is repeated every day all over this country. And it's happening because there are major problems with the medical malpractice system in the United States.

Malpractice insurance premium costs are skyrocketing, reaching as high as $100,000 a year for some speciality physicians in certain areas of the country. The number of malpractice claims has tripled over the past decade and million dollar settlements happen on a regular basis. The average settlement has grown from $5,000 to over $300,000 in just six years.

Growing numbers of claims have resulted in physicians practicing defensive medicine. The AMA estimates that this may cost Americans at least $15 billion a year in extra costs. Still the number of claims against doctors continues to grow, and the public pays for it through high hospital bills, doctor bills, and health insurance premiums.

Higher malpractice insurance costs force doctors and hospitals to raise their charges and pass these costs on to third party payers and consumers. It is also pricing some physicians out of business. The Minnesota Medical Association estimates that 40 family practice doctors have stopped delivering babies and more are expected to drop the obstetric part of their practice. This could create serious problems for residents in rural Minnesota and similar areas around the country who rely on their community doctor for all their medical care.

State Efforts Have Not Worked

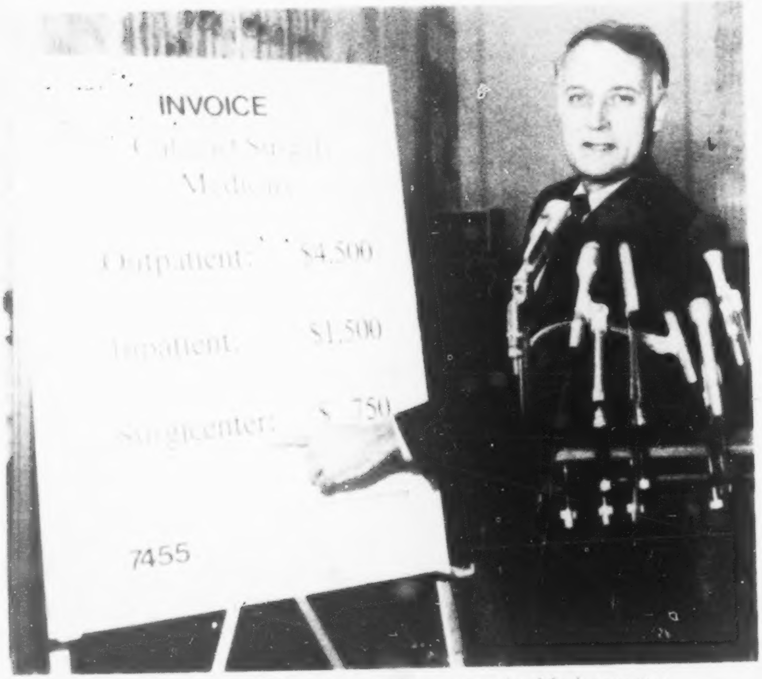
The litigation of malpractice cases is unwieldy and expensive. It is also time-consuming and inequitable. A few plaintiffs are awarded large recoveries, but only after a long, drawn out litigation process. but the real tragedy is that the expense of litigation discourages many with valid claims from even prosecuting those claims. And international reinsurance companies are threatening to quit reinsuring American malpractice insurance companies. These reinsurers are concerned that damage awards in the United States have gotten too far out of line from premium revenues.

These problems are not new. In the mid-1970s, in response to increased numbers of claims and sizes of settlements, many liability insurance carriers were left out of the market and others had to raise their premiums by as much as 750 percent. The states responded to this by enacting medical malpractice before legislation. But these reforms have obviously not had much of an effect.

States are now taking even more steps to reform their tort laws. I was in Florida in November and learned about their newly passed law which includes a sliding fee scale for attorneys' contingency fees. States are trying other methods of reform, and the jury is still out on the likely success of these measures. We will watch these changes closely. But it is time to determine whether a federal role in this area is appropriate.

The crisis may be upon us again. This demands action. We must bring down the cost of malpractice insurance to physicians, insurers, and the public, and at the same time, create a more equitable, efficient system to adjudicate malpractice. At a time when the health care marketplace is becoming more and more cost-conscious, we can ill afford this lopsided, ineffective malpractice system that perpetuates an insensitivity to price and unresponsiveness to fairness.

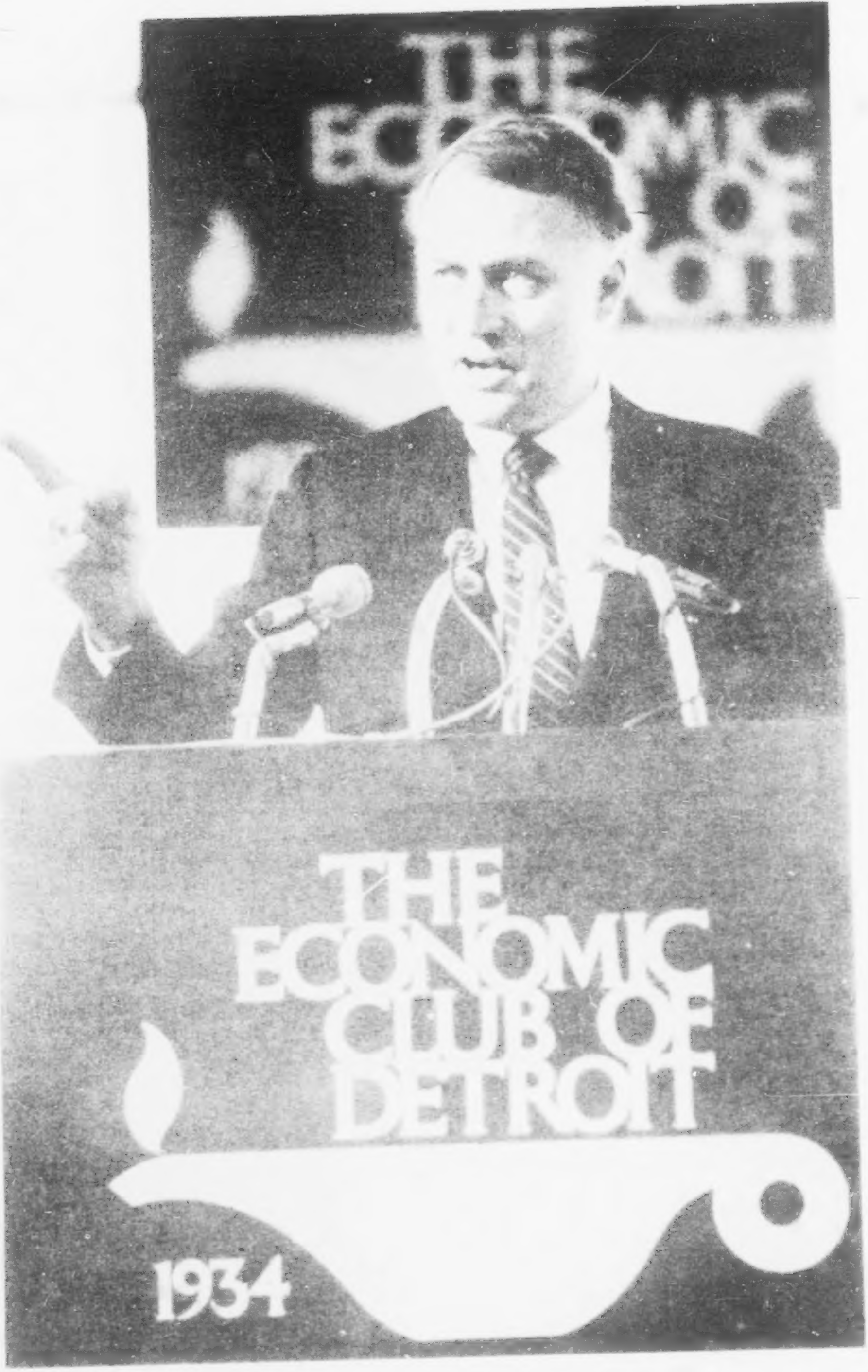
I trust the new year will bring serious debate and resolution of the professional liability crisis. I intend to be at the center of that debate.


INVOICE
Cataract Surgery
Medicare
Outpatient: $4,500
Inpatient: $1,500
Surgicenter: $ 750
7455

Senator Durenberger unveils his legislation reforming the Medicare payment system for outpatient surgery performed in hospitals (above) and congratulates Donna Marie Jarva of Bovey, Minnesota (below) after she won second prize in the National Kidney Foundation's "Gift of Life" poster contest. Durenberger helped judge the posters, all created by young people with kidney disease.

ALYSIS
LIFE
AVER

Senator [illegible] Winema Mary [illegible] [illegible] House [illegible] the Medicine [illegible] Meeting [illegible] Office Building.


THE ECONOMIC CLUB OF DETROIT
1934

EMERGENCY
and
Outpatient Care
Laboratory - X-Ray Departments
Admitting Desk

[illegible]

Appendix I

Durenberger Health Care Initiatives on the 99th Congress

Title	Date	Topic
S. 357 Part B Premiums Non-Smoking Discount	1/31/85	Amends Part B of Medicare Monthly premium $17.60 for 1986. Non-smokers $1 discount
S. 358 Prevention Incentive Act	1/31/85	Raises Part B Medicare premium, certain previous health measures can satisfy deductible
S. 359 Health Promo & Disease Prevention Demos.	1/31/85	Preventive health services demonstration programs in Medicare
S. 505 Maternal & Child Health Preventive Amends.	2/25/85	Expands benefits for services to pregnant woman under Medicaid
S. 1211 Health Equity & Fairness Act	5/23/85	Limits deductible employers' contribution to employee health benefits plans/ taxcap on health insurance premiums/capped tax deduction for individual health plan payments/catastrophic and continuity coverage by employers
S. 1378 Long-Term Care Insurance Promotion and Protection	6/27/85	Sets standards to regulate LTC insurance policies offered by private entities

Title	Date	Topic
S. 1489 Out Patient Surgery	7/24/85	Sets DRG rates for surgery in hospital outpatient departments. Updates payments for ASCs. Copayments for procedures in Ambulatory Surgical Centers
S. 1551 Medicare Part B Appeals	8/1/85	Administrative hearing for amounts over $500, Judicial review for amounts over $1000.
S. 1559 Capital Payment Reform Act	8/1/85	Add-on payment to national DRG for hospital capital related costs
S. 1620 Nat'l Council on Access to Health Care Act	9/10/85	Three Year Council to conduct study
S. 1633 Cigarette Excise Tax	9/12/85	Keeps $.16 cig. tax. Appropriates 50 percent to states for disease prevention programs
S. 1960 Medical Offer and Recovery Act	12/17/85	Provides alternative liability system for medical malpractice
S. 1985 Medicare Voucher	12/18/85	Extends types of health plans that qualify as alternatives to traditional medical coverage.
S. 2121 Medicare capital payment	2/27/86	Reforms Medicare support for hospital capital costs.

Appendix II

Chronology of Durenberger Health Care Speeches and Statements

October 27, 1980 — East/West Metro Hospital Trustee Council, St. Paul, Minnesota	xxi
September 18, 1981 — National Health Council, Washington, D.C.	65
November 18, 1983 — Floor Statement, U.S. Senate, Washington, D.C.	153
February 2, 1984 — American Association of Retired Persons, Washington, D.C.	91, 150
March 27, 1984 — Florida Coalition of Employers, Tampa, Florida	98
March 29, 1984 — Hospital Council of the National Capital, Washington, D.C.	87
April 30, 1984 — Governor's Conference on Alternative Health Delivery, Middleton, Pennsylvania	70
May 1, 1984 — Association of Private Pension and Welfare Plans, Washington, D.C.	76, 160
May 11, 1984 — Business Council, Hot Springs, Virginia	73, 100
May 16, 1984 — American Council of Teaching Hospitals, Baltimore, Maryland	117
June 21, 1984 — American Protestant Hospital Association, Washington, D.C.	81
July 20, 1984 — Blue Cross/Blue Shield of Minnesota, Brainerd, Minnesota	113
September 12, 1984 — Blue Cross/Blue Shield, Minneapolis, Minnesota	37
September 15, 1984 — Business-Government Relations Council, Washington, DC.	3
September 30, 1984 — American Public Welfare Association, St. Paul, Minnesota	29
October 13, 1984 — Metropolitan Senior Federation, St. Paul, Minnesota	94
December 14, 1984 — Health Insurance Association of America	166

January 31, 1985 — Floor Statement, U.S. Senate, Washington, D.C.	58
February 24, 1985 — Minneapolis Children's Medical Center, Minneapolis, Minnesota	49
February 28, 1985 — Employers Council on Flexible Benefits, Washington, D.C.	157
March 13, 1985 — Providence Journal/Brown University Public Affairs Conference, Providence, Rhode Island	46
April 28, 1985 — Pfiser Corporation Management Conference, Miami, Florida	44
May 16, 1985 — Floor Statement, U.S. Senate, Washington, D.C.	119
May 23, 1985 — Floor Statement, U.S. Senate, Washington, D.C. (Catastrophic coverage)	156
May 23, 1985 — Floor Statement, U.S. Senate, Washington, D.C. (Tax Reform)	161
May 25, 1985 — College of St. Thomas Commencement, St. Paul, Minnesota	7
June 14, 1985 — Park-Nicollet Medical Foundation, Minneapolis, Minnesota	54
June 27, 1985 — Floor Statement, U.S. Senate, Washington, D.C.	170
July 24, 1985 — Floor Statement, U.S. Senate, Washington, D.C.	139
August 1, 1985 — Floor Statement, U.S. Senate, Washington, D.C.	129
August 1, 1985 — Capitol Press Conference, Washington, D.C.	149
August 22, 1985 — Sentech Medical Corporation Conference, Minneapolis, Minnesota	113
September 2, 1985 — Minnesota Jaycees, Sioux Falls, South Dakota	13
September 10, 1985 — Capitol Press Conference, Washington, D.C.	105
October 5, 1985 — Association of Academic Health Centers, Colorado Springs, Colorado	111, 123
October 23, 1985 — Floor Statement, U.S. Senate, Washington, D.C.	109
October 29, 1985 — Floor Statement, U.S. Senate, Washington, D.C.	108
November 19, 1985 — American Public Health Association Rally, Washington, D.C.	57, 107
December 17, 1985 — Floor Statement, U.S. Senate, Washington, D.C.	174
December 18, 1985 — Floor Statement, U.S. Senate, Washington, D.C.	146
January 14, 1986 — Minnesota Press Club, Minneapolis, Minnesota	21
January 17, 1986 — Hamline University Public Health Conference, St. Paul, Minnesota	54
February 27, 1986 — Floor Statement, U.S. Senate, Washington, D.C.	133
April, 1986 — Floor Statement, U.S. Senate, Washington, D.C.	125

Prescription for change

Index

A
ABC 54
Advisory Commission on Social Security 82, 117
Aetna Insurance Company 124
AFDC 33, 56, 112, 167, 168
Agee, James 56
Agricultural Price Supports 16
Alamo 15
Ambulatory Surgery Centers (ACSs) 140, 143-144
American Association of Retired Persons (AARP) 70, 96, 171
American Council of Life Insurance 59
American Hospital Association 95
American Indians 58
Americans for Generational Equity (AGE) 7, 17
Anderson, Arnie 49
Argentina 5
Arizona 43, 72, 73, 75, 89, 167
Aspin, Rep. Les 26
Associated Industries of Florida 74
AT&T 68

B
Babbit, Gov. Bruce 43, 89
Baby Boom 13
Bayh, Sen. Birch 39
Beal, Joe 39
Beatitudes 69
Beshlo, Les 53
Bethlehem Steel 164
Biwabik, Minnesota 44
Bloomingdales 68
Blue Cross/Blue Shield 38, 39, 43, 53, 60, 90, 124
Boen, Gov. Otis 117
Boston 42, 122
Bradley, Sen. Bill 132, 162
Brainerd, Minnesota 115
Brazil 5
Burnett, Bob 98-99
Business Week 81, 172

C
Cable News Network 54
Cafeteria benefit plans 102, 160
Califano, Joseph 98
California 51, 60, 72, 73, 87, 89
Campanella, Joseph 89
Canada 53
Capital payment 130, 132
Carpel Tunnel Releases 142
Carter, President Jimmy xxvii, xxviii, 25, 94, 162
Cataracts 142
Catastrophic Expense Protection Act 150, 153, 154
Catastrophic insurance 43, 150-156
CBS 54, 109
Chafee, Sen. John 150, 170
Chicago 122
Child nutrition 56
Child welfare 34, 56
Chrvsler Corporation 55, 55, 98, 100, 159, 164
Church, Sen. Frank 39
Civil Aeronautics Board 72
Clark, Dr. Barney 6, 71, 77
Cochlear implants 126
Congressional Budget Office (CBO) 25, 54, 92, 164
Congressional Research Service (CRS) 54
Consumer Reports 67
Corporate income tax 16, 24
Corrections 34
Cook County General Hospital 112

Council of Teaching Hospitals 121
Cunningham, Robert M. xxxi

D
Dallas 125
Danforth, Sen. John C. 174
Deafness 126
Debt and deficits 3, 9, 17, 21, 22, 32, 37, 91, 144
Declaration of Independence 7
Defense 23, 24, 38
Democratic party 82
Deregulation 74, 76
Des Moines, Iowa 100
Des Moines Register 98
Detroit 100
Diabetics 68
Diagnostic Related Groupings (DRGs) 41, 72, 82, 83, 85, 87, 90, 95, 114, 130, 131, 141
Dole, Sen. Bob 27, 91, 124, 162
Dorfman, Sarah S. 171, 172
Drug Enforcement Administration (DEA) 16
Durenberger-Gorton 25
Durenberger Health Task Force xxxi

E
Economic Equity Act (EEA) 108
Education 34
Electric service 40
Ellwood, Dr. Paul 123
Emergency Medical Technicians (EMTs) 56
Environment 6

F
Fair Deal Capital Payment Act of 1986 134
Fargo, North Dakota 115
Federal Bureau of Investigation (FBI) 16, 23, 31
Federal Employees Health Benefit Plan 56, 148
Federal Health Planning Act 72
Fergus Falls, Minnesota 115
Fireman's Fund American Life Insurance Company 173
Florida 74, 75, 87, 89, 141, 175
Food and Drug Administration (FDA) 129
Food Stamps 33, 56, 112, 167
Ford Motor Company 100, 164
Foreign Medical Schools 120
Foster Care 33
Founding Fathers 11

G
Garrett Company 89
Gartner, Mike 98, 99
General Accounting Office (GAO) 111
General Mills xxxii
General Revenue Sharing (GRS) 23
Generational Equity 1, 7, 13, 17
Geneva 26
GI Bill 40, 67
GI Bill of Health 40, 41, 42
Graduate Medical Education (GME) 42, 76, 83, 84, 86, 117, 119, 123
Gramm-Rudman 19, 25, 26, 27, 55, 56, 129
Grassley, Sen. Charles 165, 166
Graven, David 51
Great Depression, 4, 17, 32
Green Bay, Wisconsin 67
Groundwater 10
Group Health 116
Group health insurance 39, 52, 105
Grove City Civil Rights Act 30

H
Harris Survey 99
Hatch, Sen. Orrin 109, 174
Head Start 56
Health Care Financial Management 141
Health Care Financing Administration (HCFA) 97, 126
Health Equity and Fairness Act of 1985 156
Health Incentives Reform Act of 1979 xxx, 65, 161
Health insurance 15
Health insurance continuity 108, 111
Health Maintenance Organizations (HMOs) xxix, xxx, 45, 73, 74, 86, 87, 88, 89, 96, 99, 100, 118, 121, 146, 147, 171
Health subcommittee 54, 55, 118
Heinz, Sen. John 150
Helms, Dr. Robert 134
Hershey Food Corporation 125
Highway construction 16
Hill-Burton 40
Honeywell, Inc. 89, 98, 100
Hospital Association of New York xxix
Hospital Cost Containment Act xvii
Hospital trustees, role of xxxii
House Ways and Means Committee 135
Housing 14, 33
Houston, Texas 125

I
Iacocca, Lee 98, 99
Idaho 60

Income security 6, 23, 32, 112, 113
Indiana 116
Indigent care 76
Individual Retirement Accounts (IRAs) 33
Infrastructure 11
Institute on Medicine 49
Insurance xxviii
Interest 23, 24
Intergovernmental Relations Subcommittee 166
Intermediate Care Facility (ICF) 169
IPAs 45

J
Jaich, Cindy 60
Japan 5
Jefferson, President Thomas 4
Job Training 34
Joggers 12
Joint Committee on Taxation 152, 157
Journal of the American Medical Association 60

K
Kane, Bob 53
Kansas 10
Kansas City, Missouri 67
Kennedy, President John F. 11
Kennedy, Sen. Edward M. 44, 70, 109
Keogh Plans 33

L
Lamm, Gov. Richard 75, 77
Laxalt, Sen. Paul 27
Living Will 12, 53
Long-Term care 34, 116
Long-Term Care Insurance Promotion and Protection Act 173
Los Angeles County General Hospital 112
Low income energy assistance 33

M
Maine 55
Malpractice 174, 175, 176
Mankato Free Press 174
Maryland 41, 89
Massachusetts 75
Maternal and child health 56, 57, 101
Maternal and Child Health Amendments of 1985 51
Mayo Clinic 53, 114
McCall, Ann and Pat 174
McCall, Zachary 174
McDonald's 69
Means testing 43
Medical technology 68, 86
Medicare Equity Act 128
Medicare Hospital Reimbursement Program 58
Medicare Office and Recovery Act 174
Medicare Outpatient Surgery Savings Access and Quality Act of 1985 140
Medicare Part B Premiums Act 60
Medicare Trust Fund 82, 92, 124
Medigap insurance policies 43, 92, 147, 150, 154, 155, 172, 173
Meredith, Pat C. 98
Mexico 5
Miles, Jim 49
Miners Hospital 44
Minneapolis 42, 67
Minneapolis Childrens Hospital xxvii, xxxii, 50, 52
Minnesota 31, 71, 73, 85, 87, 89, 92, 96, 98, 109, 113
Minnesota Coalition on Health Care Costs 51, 52
Minnesota farmers 10
Minnesota Medical Association 175
3M Company xxxii
Mississippi 32
Mondale, Vice President Walter 70, 94
Moore, Rep. W. Henson 174
Moorhead 115
Motorola 89

N
National Association of Insurance Commissioners 59
National Center for Health Services Research 156
National Center for Health Statistics 59
National Council on Access to Health Care Act of 1985 106
National Heart Lung and Blood Institute 61
National High Blood Pressure Education Project 61
National Institutes of Health (NIH) 23, 129
National Maternal and Child Health Month 57
NBC 54
Nebraska 10
Nelson, Sen. Gaylord 39
Network 39
New Deal 13
New England 31
New Federalism 29, 31, 32, 33
New Jersey 41, 72, 75, 89, 96
New Mexico 72, 87
New York 41, 67, 75, 89, 122, 167
New York Times 99

New York Times Sunday Magazine 171
Newark, New Jersey 67
Nobles County, Minnesota 112
Northfield, Minnesota 7
Nutrition 34

O
Office of Management and Budget (OMB) 134, 149
Ohio xxviii, 72
Oklahoma 10
O'Neill, Rep. Thomas P. (Tip) 27
ONLOK Health Services Program 61
Oregon 170
Oslo, Norway 5, 101
Outpatient surgery 140

P
Pacemakers 84, 85, 91
Packwood, Sen. Robert 158
Part B Premium Redistribution Act 150
Payroll taxes 24, 25
Peer Review Organization (PROs) 84, 140, 141, 143, 144
Pennsylvania 75, 76, 89
Pensions 23
Pepper, Rep. Claude 82
Philadelphia 30
Physician associations xxix
Physician DRGs 145
Prevention 47
Proposition 13, 39
Prospective Payment Assessment Commission 129
Prospective Payment System (PPS) 41, 45, 87, 95
Public health 34

Q
Quayle, Sen. Dan 133, 135

R
Rationing 46, 50
Reaganomics 168
Reagan, President Ronald 4, 11, 21, 22, 25, 27, 28, 29, 72, 94, 111, 162, 166, 167
Recreation 34
Redwood Falls, Minnesota 115
Reese, Dick 115
Refugee assistance 31
Regulation xxviii, 62
Republican Party 30, 82, 94, 113
Research and development 31
Rhode Island 170
Roanoke, Virginia 170
Rochester, Minnesota 114
Roseau, Minnesota 114
Rural health care 113

S
St. Olaf College 7
St. Paul 28
Samuelson, Dr. Paul 8
Seat belts 45
Secretary of Health and Human Services 60, 61, 128, 130
Senate Finance Committee 15, 69, 82, 91, 108, 109, 135, 136
Senate Health Subcommittee 26
SHARE 116
60 Minutes 109
Skilled Nursing Facilities (SNFs) 169
Smoking 45
Social Security 9, 10, 16, 23, 55, 93, 95, 97, 135, 168
Social services 34
Soil conservation 10
South Bend, Indiana 67
South Dakota 12, 112
Sperry 89
SSI 34, 56
State government, role of 34
Stein, Andrew 171
Stockman, David 6, 28, 91
Swing beds xxxi

T
Tax Equity and Fairness Act of 1982 (TEFRA) 146, 147, 148, 153, 165
Tax reform 19, 21, 27, 132, 136, 158, 162
Telephone service 40
Texas 10, 14, 32, 112, 125
Titanic, HMS 27
Transportation 34
Trustee Magazine xxxi
Twin Cities xxix, xxx, xxxii, 5, 42, 73, 81, 86, 93, 95, 101, 121, 146

U
Uncle Sam 22
University of Minnesota Hospitals 121, 125
University of Minnesota School of Public Health 53
U.S. Chamber of Commerce 159
U.S. Civil Rights Commission 30
U.S. Constitution 30, 31
U.S. Department of Health and Human Services (HHS) 29, 114, 130, 133, 134, 150
U.S. Department of Health Education and Welfare (HEW) 57

U.S. Department of Housing and Urban Development (HUD) 67
U.S. Postal Service 67
U.S. Secretary of the Treasury 162
U.S. Tax Court 77
Utah 72, 87

V
Vertical integration xxx
Veterans Administration (VA) 40, 129
Vouchers 85, 86, 88, 89, 95, 147

WXYZ
Wall Street Journal 83
Washington Post 110
Weinberger, Casper 27
Wellness 47
Wendy's 69
West Virginia 75
White House Conference on Aging 107
Wilderness protection 31
Willmar, Minnesota 115
Wisconsin 32, 75
Women, Infants and Children Program (WIC) 56
World War II 1, 12, 14
Wyden, Rep. Ron 170

Yale-New Haven Hospital 144

PHOTO CREDITS: Page ix, Richard N. Greenhouse (top) and Karen Casanova, American Heart Association, Minnesota Affiliate. Page x, U.S. Senate. Page xi, U.S. Senate (top) and Jon Schroeder. Page xii, The Catholic Health Association (top) and U.S. Senate. Page xiii, Chad Evans Wyatt (top) and U.S. Senate. Page xiv, U.S. Senate. Page 177, U.S. Senate. Page 178, Mark Shuster (top) and U.S. Senate. Page 179, Economic Club of Detroit. Page 180, Jon Schroeder. Page 181, U.S. Senate. Back cover, Chas Geer.

SPECIAL
COUNSEL
HEARING
EX. 450

AFFIDAVIT OF WILLIAM B. CANFIELD III

I, William B. Canfield III, being duly sworn, do depose and state as follows:

1) At all times during calendar years 1984, 1985, and 1986 I was employed as counsel on the staff of the Senate Select Committee on Ethics. Respecting this period of time, I have been asked about my recollection of a matter concerning Senator David Durenberger and his writing, publishing, or promoting a book. I recall only two conversations with anyone on this subject.

2) Although I do not recall the exact date, I do recall that at some time during 1985, while Clendon Lee was still employed by the Committee, a conversation took place among Committee staff counsel (there were three of us: me, Clendon Lee, Wilson Abney) on the subject of a book publication and promotion agreement involving Senator David Durenberger. As I recall it, this conversation took place not long before Clendon left the Committee, perhaps as part of the process of dividing his work between Wilson and me. I believe we were being alerted to the matter by Clendon because of the possibility of a follow-up contact. The only information known at the time of this three-way conversation among staff counsel was general, we knew only that the matter involved an agreement which called for Senator Durenberger to author and promote a book.

3) Several months after Clendon left the Committee (I do not recall the exact date) I received a call from Doug Kelly on the subject of the Senator's contract with his publisher. I recall being informed that this was in most respects a pretty standard book arrangement, with one added feature. That feature called for the Senator to actively promote his book. The Senator was to be compensated for these promotional appearances. This "promotional appearance" feature of the contract raised a question of whether the fees received by the Senator were "honoraria" or a "stipend." My advice to Doug Kelly was that the Senator would want a determination from the Federal Election Commission on this issue, because FEC regulations define "honorarium" and "stipend," and the Ethics Committee had historically followed and considered itself bound by FEC rulings on these "honoraria" issues. Whether Doug Kelly told me the Senator already had an FEC opinion at the time of this conversation, I do not recall.

4) This was not the first book or record royalty contract or stipendiary relationship I had been aware of in the Senate. I recall similar contracts (though not necessarily the identical "appearance" issue) involving Senators Byrd, Dole, Kennedy, Simpson, and Moynihan.

5) I do not recall during the conversation being made aware by Doug Kelly that Senator Durenberger's publisher charged a fee to the groups before whom the Senator appeared to promote his book. Neither do I recall being made aware that the Senator's office referred requests for the Senator's appearance to the book publisher

so that a promotional appearance could be arranged. However, I would like to emphasize that in seeking my advice on matters concerning the Code of Official Conduct, Doug Kelly (whom I originally met when he visited the Committee staff shortly after coming to work for the Senate) was always extremely forthright in providing all (not just some) facts considered relevant to the question he was asking. In my opinion, the existence of either of these two facts (fees charged to audiences for appearances, referral of requests for appearances) might raise additional questions for the FEC.

6) I recall having read several Minnesota and Washington, D.C. newspaper accounts discussing Senator Durenberger and his writing, publishing, or promoting books, long after my conversation with Doug Kelly. I cannot say to what extent, if any, my recollection of the two conversations which I have described above may have been refreshed by those articles, but to the best of my knowledge those conversations occurred as stated.

WBC III 7) ~~I have recently~~ In early 1989, I received a telephone call from, and discussed at that time this matter with, Clendon Lee. ~~Approximately one month ago,~~ I also discussed this matter, and several other unrelated matters, with Jim Hamilton. At that time, I related to Mr. Hamilton the same recollection of the two conversations which I have set out above. My recollection of those conversations was not refreshed by my discussion of the matter with either Mr. Hamilton or Mr. Lee.

8) In addition, while watching the coverage of the Democratic National Convention in July, 1988, I specifically recall an interview conducted by ABC TV with the Chairwoman of the Minnesota Democratic State Party about the effect of the Jim Wright ethics inquiry on the Minnesota political scene. Her response was that the Wright matter made it very difficult for her state party to make the charge against Dave Durenberger that his book contract was unethical. I recall thinking to myself that this issue, which had been reported years earlier in the press, continued to be the center of political discussion.

William B. Canfield III

SWORN TO AND SUBSCRIBED before me this 4th day of June, 1990.

Notary Public

My Commission Expires: July 17, 1992

[SEAL]

AFFIDAVIT

I, WILSON R. ABNEY, being duly sworn do depose and say:

1. I am employed as Staff Director and Chief Counsel to the United States Senate Select Committee on Ethics.

2. I have been employed by the Committee as counsel to the Committee from May of 1980.

3. On Monday, June 11, 1990, I reviewed an affidavit executed by Lori Krage, on June 1, 1990, who has stated that she believes that in March 1984 she may have spoken to me about the propriety of Senator Durenberger receiving reimbursement for stays in a condominium he owned through a partnership. Ms. Krage believes that I may have advised her that Senator Durenberger's partnership could receive such payments so long as the condominium was not the Senator's principal residence.

4. While I have no recollection of the conversation referred to in Ms. Krage's affidavit, I would not have advised her that the Senator could receive such reimbursements. I have recently reviewed logs of telephone calls received by Committee counsel. I am not certain that these logs reflect each and every telephone inquiry received in the office. However, these logs do not reflect any telephone inquiries by Ms. Krage during the time frame in question.

5. Until the allegations pertaining to Senator Durenberger appeared in the press, I had no knowledge that any Member was receiving reimbursement from the Senate for stays in property in which they had an ownership interest, nor had I ever heard any suggestion that a Member could receive such reimbursement. I would not have stated (as her memorandum of March 13, 1984 implies) that another Senator was doing the same thing.

6. I have recently reviewed the documents related to the Senator's Minneapolis condominium and can categorically state that no one ever informed me about the fact pattern reflected in those documents. Had any one presented those facts to me and asked my opinion of the propriety of the Senator receiving Senate reimbursements for staying in the condo, I would have told them that I believed that the receipt of such payments would be improper.

7. As to the affidavits of Bill Canfield and Clendon Lee, I have no recollection of discussing with them Senator Durenberger's

SPECIAL
COUNSEL
HEARING
EX. 451

arrangement with his publisher. However, I do remember a (1985 or 1986) conversation with a woman (who did not give her name) who stated that she represented an organization which had been asked to pay $5000 to a publisher as a fee for a Senator's appearance. She would not tell me that Senator's name. Because I was very concerned about the situation, I asked the woman to please advise the Senator involved that the arrangement described appeared to be an improper attempt to evade the honoraria limits. I further asked her to tell the Senator that if he intended to pursue the described arrangement, he should contact the Ethics Committee immediately so that all the facts could be presented for the Committee to rule upon.

8. Having reviewed the documents related to the Piranha Press agreement, I can categorically state that no one discussed with me the fact pattern presented in those documents. If I had been asked my opinion on the propriety of a Member receiving income through such an arrangement, I would have advised that the arrangement should not be undertaken because it would be an improper evasion of the statutory limits on honoraria.

9. If the fact patterns presented in the documents I have reviewed related to either the condominium matter or the Piranha Press agreement were discussed by anyone with any other Committee employee, that employee did not discuss such fact patterns with me.

10. Finally, I would also note that Committee counsel are frequently asked to comment on fact patterns presented by Senate offices and others. The usefulness of our response is entirely dependent upon the completeness of the facts presented.

Wilson R. Abney
Wilson R. Abney

SUBSCRIBED AND SWORN TO before me this 12th day of June, 1990.

Notary Public

[SEAL]

My Commission Expires: April 14, 1994

Doesn't that at least suggest to you that as of this meeting the agreement had not been signed?

A I don't know.

Q The partnership agreement that is itself Exhibit 11 names the partnership, the Durenberger-Scherer partnership?

A Yes.

Q Are you aware that at some point the name was changed to the 703-603 Association?

A Yes.

Q Why was that done?

A I don't know why. David Steingart informed me that it had been changed, I think sometime in May or June or July, sometime much later, and that that had been done at the request of the Senator. And my recollection of that conversation is that it had been a request of the Senator but I am not sure of all of the reasons why.

Q Are you aware of any of the reasons why?

A No, I am not.

Q Do you have any understanding of any of the reasons why the name was changed?

A No. I remember a conversation in which Dav

SPECIAL
COUNSEL
HEARING
EX. 452

Steingart told me the Senator wanted the name changed to the 603-703 or whatever it ultimately became, that Association.

Q Let me ask you to look again in Exhibit 11. If you flip past the partnership agreement --

A Past the agreement?

Q Yes.

A Tab 4?

Q Now you are a little too far. Come back a little bit.

There is a page entitled "Amendment to Partnership Agreement."

A I have seen it before. I know what you're talking about. Yes.

Q Am I correct, if you look at the bottom of the page on the left-hand side, there is a series of numbers that is a tag line of some sort that reflects your word processing system. Is that right?

A Yes.

Q Would I be correct in reading the last several digits of that to mean that this document was prepared on March 28, 1984?

A Well, you can't always tell, but --